Policy Statement

# 09/16

Financial Services Authority

# Strengthening liquidity standards

## including feedback on CP08/22, CP09/13, CP09/14

October 2009

FSA®

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This Policy Statement reports on the main issues arising from Consultation Papers 08/22, 09/13 and 09/14 and publishes final rules.

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# 1 Overview

1.1 We have now finalised our far-reaching overhaul of the UK framework of liquidity regulation. This Policy Statement (PS) is our sixth formal liquidity publication,[1] issued as part of a thorough process of consultation that started in December 2007.

1.2 Feedback to our consultations has indicated broad support for the direction of our original proposals. However, some major concerns were expressed about certain aspects of the proposed regime – especially with regard to the tight definition of liquid assets; the proposals on UK branches of foreign firms; aspects of the reporting requirements; and scope and proportionality (particularly for smaller firms).

1.3 The final regime does not differ markedly from our initial proposals. This is because, rather than regulating for regulation's sake, the new framework has been developed to address crucial lessons learned from the financial crisis which started in July 2007 and jeopardised the global financial services system. We have reviewed responses to our Consultation Papers (CPs) and have engaged closely with industry stakeholders, taking on board, where appropriate, suggestions received.

1.4 Specifically, our regime addresses some of the main failures of liquidity risk management that have become apparent over the past two years as follows:

1 DP07/7, *Review of Liquidity Requirements for Banks and Building Societies*
FS08/3, *Review of the Liquidity requirements for banks and building societies – Feedback on DP07/7*
CP08/22, *Strengthening Liquidity Standards*
CP09/13, *Strengthening Liquidity Standards 2: Liquidity reporting*
CP09/14, *Strengthening Liquidity Standards 3: Liquidity transitional measures*

| Failures of liquidity risk management | Mitigation |
|---|---|
| Inadequate quality and quantity of liquid asset buffers, leading to firms' inability to liquidate them in a stress event | New, tough definition of liquid assets and risk-based buffer (see Chapter 8) |
| Poor liquidity risk management capabilities (i.e. inadequate stress testing, contingency funding planning and senior management oversight) | Enhanced systems and control requirements based on the Basel Committee on Banking Supervision's (BCBS) *Principles for Sound Liquidity Risk Management and Supervision* (see Chapter 5) |
| Specific liquidity risk factors:<br>• over-reliance on short-term credit-sensitive wholesale funding markets;<br>• large pipelines of new business with limited or no ability to fund them;<br>• over-reliance for funding on securitisation markets;<br>• inability to meet significant retail outflows; and<br>• firms entering into ratings-based liquidity contracts without valuing the underlying option | New quantitative requirements on firms to (see Chapter 6):<br>• stress 100% of outflows out to two weeks and limited rollover beyond;<br>• consider undrawn commitments and the need to continue lending under the franchise-viability risk driver;<br>• diversify their funding base;<br>• raise their retail resilience; and<br>• requirement to take into account all ratings triggers |
| UK branches and subsidiaries of foreign groups which maintain global liquidity pools that can be disadvantageous to UK depositors | Principles of adequate liquidity and self-sufficiency where necessary; enhanced home-host cooperation (see Chapters 4 and 9) |
| Insufficient data to assess properly firms' liquidity positions or to form sector- and industry-wide views | Frequent, granular reporting requirements which will sound early warning signals on deteriorating liquidity positions (see Chapter 10) |

1.5 A general concern many stakeholders raised was the potential detrimental impact of our proposals on the international competitiveness of UK firms and the overall attractiveness of London as a financial centre.

1.6 We maintain that, even though our new regime will require a considerable change to firms' liquidity risk-management practices, strengthened liquidity requirements can bring substantial long-term benefits to the competitiveness of the UK financial services sector. London's competitive position depends importantly on counterparties' perception of the financial soundness of the firms that operate here. Low levels of financial soundness cannot provide sustainable long-term competitive advantage. It is in every firm's interest to demand strong liquidity standards for its competitors, as the current crisis has shown that the weakest firm can precipitate a market-wide crisis of confidence affecting all firms.

1.7 Our regime is designed to protect customers, counterparties and other participants in the financial services markets from the potentially serious consequences of imprudent liquidity risk-management practices. If any firm makes a deliberate judgement to circumvent or avoid UK liquidity regulation by moving offshore it is assuming that its counterparties place little value on the tough liquidity risk-management standards set under that regulation. We have observed that, in practice, counterparties place significant value on prudent liquidity risk management by the firms with which they deal.

**International developments**

Liquidity workstreams are under way at the Committee of European Banking Supervisors (CEBS) and the Basel Committee on Banking Supervision (BCBS), covering definitions of liquid assets, common stress testing metrics and structural balance sheet measures. We strongly support such international initiatives and are participating fully in them.

However, it may be some time before international agreement on specific proposals works its way into national legislation. Given our public commitment to reforming the UK's liquidity regime, we do not judge it sensible to wait further for an international outcome before acting. The structure of our new regime is sufficiently flexible to allow us to amend it through time, subject to consultation, to reflect new international standards.

## The new regime

1.8 Implementation of the new regime will meet key Supervisory Enhancement Programme (SEP) deliverables arising from our Northern Rock Internal Audit Report.[2]

The key elements are:

- over-arching principles of self-sufficiency and adequacy of liquidity resources;
- enhanced systems and control requirements, which implement the BCBS's updated Principles for Sound Liquidity Risk Management and Supervision (September 2008);[3]
- updated quantitative requirements (Individual Liquidity Adequacy Standards (ILAS)), coupled with a narrow definition of liquid assets;
- a new modifications regime for branches and subsidiaries; and
- granular and frequent reporting requirements.

## Adjustments in the light of consultation feedback

1.9 While retaining the core substance and objectives of our original proposals, we have adjusted the requirements in certain areas, reflecting technical feedback and concerns about the proportionality and scope of the regime. We have:

- removed about 200 smaller full-scope BIPRU[4] investment firms from the quantitative regime altogether, leaving just 100 or so firms within that regime;
- widened the eligibility criteria for a simplified liquidity approach and created a new group of low frequency reporters, based on balance-sheet size;

2 www.fsa.gov.uk/pubs/other/nr_report.pdf

3 www.bis.org/publ/bcbs144.pdf

4 Prudential Sourcebook for Banks, Building Societies and Investment Firms

- made our quantitative standards more specific;
- amended the liquid assets definition for firms subject to the simplified quantitative regime to align it broadly with the liquid asset definition applying to firms within the standard quantitative regime;
- taken on board helpful feedback on reporting, which will enable us to deliver the required information to FSA supervisors and other stakeholders while significantly reducing the amount of data collected; and
- extended the transitional implementation timetable, giving firms longer to prepare for compliance with the new Handbook provisions.

## Impact of our new policy on the UK banking system

1.10 We have been monitoring the liquidity risk profile of major UK banks at least weekly, and in cases daily, since mid-2007. As part of our monitoring we have been assessing firms' resilience against severe stress scenarios. These stress scenarios assume that firms experience significant outflows across several liquidity risk drivers, which are then required to be met only by liquidating high-quality government bonds. This tests the firm's ability to survive a liquidity shock without having to rely on the discount windows of central banks.

1.11 Our monitoring shows clearly that the UK banking system has already strengthened its short-term position significantly. We fully expect our new requirements to have a significant further impact on firms' business models over the coming years – for example, by further discouraging reliance on short-term wholesale funding; increasing the quality and quantity of liquid asset buffers; and putting a higher cost on unsustainable bank lending during favourable economic times.

1.12 By implementing a tough policy that will require business model changes, we aim to prevent a return to former practices through which firms took excessive liquidity risks at a short-term benefit to themselves but at a long-term cost to society as a whole.

## Transitioning to our new regime

### *Implementation timetable*

1.13 We will switch on the new legal framework progressively in line with the transitional timetable outlined in Chapter 11. Initial low-level individual liquidity guidance and floors will be provided to firms as they migrate onto the new regime. This will be followed by a gradual raising of liquidity standards over time, paced according to wider macro-economic developments. Chapter 11 explains how the regime will be phased in for each class of firm. For the majority of firms, steps to fill compliance will be as follows:

1 systems and controls switch-on;

2 waiver/modification submission (where applicable);

3 waiver/modification decision (where applicable);

4 reporting; and

5 quantitive standards gradual switch-on.

### *Calibration*

1.14 We intend to separate major elements of the calibration of the quantitative requirements on large domestic firms from the policy framework itself. The calibration decision and associated quantitative transitional path depends critically on our assessment of the macro-economic environment in the UK as well as developments in other prudential policy areas. We received strong feedback from affected firms that we should be mindful of other changes to the prudential policy framework and the impact these may have when coupled with tightening liquidity standards. Our individualised approach is designed to allow us to make such judgements.

### *Quantitive flight path*

1.15 As we have publicly stated, the transitional period for firms to move from present practice to compliance with the new requirements needs to recognise that all firms, at present, are experiencing a market-wide stress and some a name-specific stress. This is particularly important in the context of the new quantitative requirements. We therefore plan to phase in the quantitative aspects of our regime in stages, over an adjustment period of several years.

1.16 We have already said we would not seek to tighten quantitative standards before economic recovery is assured. We will therefore notify firms individually of the prospective impact on them of the new quantitative requirements, assuming they are fully implemented. We will then agree with each firm other than those operating under the simplified regime a timetable of potentially some years for completing transition to the new quantitative requirements. Because of the long transitional period, we do not expect that our policy will, in the short term, put significant downwards pressure on levels of bank lending.

1.17 In transitioning to our new, tighter policies, firms will have several different options open to them¸ which will pose varying costs to their earnings. Actions that firms may take to comply with our new requirements include lengthening their wholesale funding profile, shrinking their balance sheets and/or increasing their buffers of liquid assets.

1.18 To help firms with their planning, we intend to announce, by the end of Q1 of 2010, our programme for making and applying judgements about the ultimate calibration of our quantitative requirements and the appropriate trajectory, set flexibly to achieve it through time.

1.19 A fuller description of the impact of our new policy on the UK banking system is given in Chapter 13.

## Scope

1.20 The table below outlines the scope of our new regime for different types of firm.

| | Self-sufficiency & adequacy of liquidity resources | Systems & controls | ILAS | Simplified ILAS | Regular frequency quantitative reporting | Low frequency quantitative reporting[5] |
|---|---|---|---|---|---|---|
| Banks and building societies – ILAS | ✓ | ✓ | ✓ | X | ✓ balance sheet >£1bn | ✓ balance sheet <£1bn |
| Banks and building societies – simplified ILAS[6] | ✓ | ✓ | X | ✓ | X | ✓ |
| Branches without modifications | ✓ | ✓ | ✓ | X | ✓ balance sheet >£1bn | ✓ balance sheet <£1bn |
| Branches with modifications | ✓[7] | X | X | X | ✓[8] | X |
| Full-scope BIPRU investment firms – large[9] | ✓ | ✓ | ✓ | X | ✓ balance sheet >£1bn | ✓ balance sheet <£1bn |
| Full-scope BIPRU investment firms – small | ✓ | ✓ | X | X | X[10] | X |
| Limited licence/ limited activity BIPRU investment firms | ✓ | ✓ | X | X | X[10] | X |

## Liquid Assets

1.21 On liquid assets our final policy is that firms need to hold buffers comprising high-quality government bonds. This represents prudent liquidity risk management practice as demonstrated by the significantly advantageous position through the past two years of those firms which had maintained higher proportions of their liquid assets in that form. In fact, some firms with very sound approaches to liquidity risk

5 Weekly data items (FSA047, FSA048 and FSA052) have to be submitted monthly, with a 15 business day submission deadline, and weekly reporting in times of crisis (rather than daily).

6 Eligibility criteria widened compared with the CP08/22 proposal, as described in Chapter 7 of this PS.

7 But recognises unlimited inflows from the whole-firm.

8 On a whole-firm basis, at reduced granularity and frequency.

9 With total assets, less called-up share capital, minority interests and reserves, of more than £50m.

10 Annual Systems & Controls Questionnaire (FSA055) only.

management have even more conservative definitions of liquid assets than we have proposed. The Bank of England strongly endorses our position. Its view is discussed in Chapter 8.

1.22 However, we have recognised the position of firms with significant balance sheets in emerging markets currencies. Where local supervisors set a regulatory requirement to hold a liquidity buffer in local currency, we will make some allowance for this in our whole-firm calculation.

## Treatment of branches and UK subsidiaries of foreign firms

1.23 Under our new approach to intra-group and cross-border management of liquidity, the default position is that every UK legal entity and every UK branch must satisfy our quantitative requirements on a 'self-sufficient' basis – i.e. with no reliance on other parts of the group for liquidity purposes. However, branches and subsidiaries can apply for modifications from self-sufficiency, where the statutory tests within the Financial Services and Markets Act 2000 (FSMA) are met. This is discussed further in Chapter 9.

1.24 During the recent crisis, high-profile failures or near failures of several foreign banks with UK branches that had attracted significant retail deposits resulted in significant consumer detriment and reputational damage to the UK and its financial markets. We believe that the protection of consumers and creditors of firms operating in the UK is fundamental to London's credibility as a financial centre and its international competitiveness.

1.25 This aspect of the new regime has proved controversial, both with firms and some overseas supervisors, who feel it is disproportionate. It has been argued that the policy could reduce London's attractiveness as an international financial centre, particularly if other supervisory agencies allow lower requirements for foreign banks in their jurisdictions.

1.26 Crucially, our regime does not discriminate against any foreign firms, regardless of their home country, but instead imposes similar standards on subsidiaries and branches of foreign firms as it does on UK firms' domestic operations. It has been suggested that our planned approach on self-sufficiency could result in retaliatory action against subsidiaries and branches of UK firms in other jurisdictions. We do not expect other supervisors to take discriminatory actions against overseas operations of UK groups.

1.27 Some respondents stated that our proposal could trigger a fragmentation of the global financial system. Whenever regulations are tightened some firms are impacted to a greater extent than others. Our new standards, while tough, do not place undue restricticions on cross-border activity and financial integration; they will, however, affect certain business models. Many internationally-active firms have successfully operated liquidity models that will not be impacted materially by the new UK regime. We expect other supervisors to implement equally risk-based and non-discriminatory liquidity requirements. For these reasons we disagree with the respondents concerns.

## Reporting

1.28 Much of firms' feedback and public commentary has focused on the cost burden, implementation timetable and overall feasibility of our new liquidity reporting regime. While we have engaged in extensive dialogue with the industry to improve and refine our proposals, some of the representations failed to acknowledge the key public policy concerns we are seeking to address. This includes many firms' continued difficulty in producing regular liquidity statements based on contractual cashflows.

1.29 Moreover, Senior Management Arrangements, Systems and Controls (SYSC) 11 already requires all firms subject to quantitative liquidity requirements to have easy access to the kind of information that we shall be collecting systematically under the new regime. In addition, the Handbook has long expected every UK-incorporated bank to have the capability to report its liquidity position to us on a daily basis if necessary.

1.30 We have worked closely with external software vendors have built specific applications to help firms comply with our proposals. This work has demonstrated to us that our updated timescales – as explained in Chapter 11 – are achievable. It has also confirmed that costs of the reporting regime are likely to be lower than some industry groups have suggested.

1.31 We are building sophisticated business intelligence (BI) tools that will make full use of the data collected and will give our supervisors insight into and analysis of firms' liquidity positions, as well as of the market as a whole. We will deliver the first phase of this programme of work in Q4 of this year. The strategic challenge for some firms will be that the FSA is better informed on their liquidity risk position than the firms themselves.

1.32 A small number of firms have suggested that they do not intend to have their systems built and ready for the starting dates of our new policy. We are expecting every firm to begin reporting to the timescale set out in the statutory instrument, without exception. The data items must be submitted and the data must be accurate. For firms which fail to comply with the Handbook requirements there will be regulatory consequences.

## Next steps

1.33 As is usual when major reforms are being introduced to a particular section of the Handbook, there will be consequentials of a technical kind for other sections. We plan to consult on those in our October Quarterly CP, in time for the December switch-on of the new regime.

1.34 We will hold an FSA launch event on 9 October 2009. This will be followed by a programme of conferences, workshops and special briefings in cooperation with trade associations. These will focus on implementation and target specific types of firm which fall within the scope of the new regime.

# 2 Feedback on our consultations

### Introduction

2.1 This chapter provides a high-level overview of the feedback we received in response to our three strengthening of liquidity standards consultation papers (CPs). This is feedback on:

- CP08/22, *Strengthening liquidity standards* (December 2008);
- CP09/13, *Strengthening liquidity standards 2: Liquidity reporting* (April 2009); and
- CP09/14, *Strengthening liquidity standards 3: Liquidity transitional measures* (June 2009).

2.2 A more detailed review of the feedback is set out in a separate document, which can be found on the FSA's website. We explain our final policy conclusions within Chapters 4 to 12 of this Policy Statement (PS). In these chapters, we set out our response to the key concerns raised by respndents and

## Feedback received on CP08/22, Strengthening liquidity standards

### Background

2.3 Respondents were broadly supportive of the concept of an individualised regulatory framework for liquidity and our objectives, and agreed with the policy considerations that underpinned it. There was particular agreement on the need to continue to work for an internationally co-ordinated approach on liquidity. However, respondents raised concerns about specific aspects of the proposals, which could be broadly categorised into four areas:

- proportionality and scope of the proposed regime;
- the level of prescription;

- the composition of the liquid assets buffer; and
- the principle of self-sufficiency and proposals on the group-wide management of liquidity.

2.4 These four broad areas are discussed in greater detail below.

### *Proportionality and scope of the proposed regime*

2.5 Respondents pointed out that while an individualised quantitative regime was appropriate – and indeed welcome – for large firms, it could have a disproportionately more significant impact on smaller firms. The following specific concerns were raised, many of which are discussed in greater detail in later paragraphs:

- both the systems and controls and quantitative elements of the regime were deemed inappropriate for certain categories of firms, especially small full-scope BIPRU investment firms (such as private client investment managers and stockbrokers);
- the quantitative elements of the regime, including the tight definition of liquid assets for the liquid assets buffer and our proposal on self-sufficiency and group-wide management of liquidity, was seen as unduly onerous by many firms;
- conditions for eligibility for the standardised buffer ratio for simpler, retail-focused firms were considered too restrictive (e.g. the exclusion of firms carrying any FX exposure); and
- the quantitative regime for simpler firms generally was considered too narrow (especially the definition of the buffer, see below) and too similar to the standard regime.

### *Prescription*

2.6 Even though the Individual Liquidity Adequacy Standards (ILAS) regime is individualised, CP08/22 contains several areas where we are prescriptive. In their responses, industry representatives were generally very supportive of the proposed individualised regime; however, responses were divided over the level of prescription contained in CP08/22. One response stated that 'descriptive detail on stress modelling is intellectually helpful as long as it doesn't prescribe the assumptions.'

2.7 While larger firms were generally against any greater degree of prescription, with one respondent stating 'We strongly believe that the quality of any risk management process is negatively correlated to the level of prescriptiveness,' some smaller firms pushed for more prescription than currently provided. One response stated that 'Prescription should ensure consistency, greater interbank confidence and the potential for more uniform reporting of liquidity publicly.'

2.8 Specific points made included the following:

- three separate stress test scenarios were deemed redundant by many, who argued that only the most severe stress (name-specific in combination with market-wide) should suffice to ensure a firm is resilient to liquidity risk;
- support for the use of survival periods underpinning the proposed stress testing scenarios to express our risk appetite;
- support for dynamic, rather than static prescription;
- majority support for the two-week time period for the idiosyncratic stress, although some respondents also proposed four weeks/one month;
- demand for flexibility in the definition of 'retail' versus 'wholesale' in the stress tests;
- illiquidity of foreign exchange markets should only be considered for minor currencies;
- disagreement on some of our proposed assumptions on retail depositor behaviour; and
- the assumed complete loss of secured funding within the idiosyncratic stress was considered unrealistic.

### *Liquid assets buffer*

2.9 Most respondents considered our definition of assets acceptable for use in the liquid assets buffer too restrictive, with some suggesting that the proposed size and definition of the buffer could distort the gilt markets. It was also stated that the exclusion of bank debt would reduce the volume of funds lent inter-bank, and thereby reduce the volume of funds available to the wider economy. This, in turn, could reduce the relative competitiveness of UK banks. Specific suggestions included:

- allow collateral accepted by central banks in their business-as-usual open market operations (this was the most prominent suggestion);
- recognise that other assets and liquidity resources might be useful to mitigate different kinds and durations of liquidity stresses;
- clarify the eligibility of reverse repos and government-guaranteed instruments;
- expand the list of countries whose government debt instruments are eligible and/or allow government paper from jurisdictions in which banks are operating (this latter point is particularly important to firms whose business model is based on countries outside the prescribed list);
- consider including a wider range of assets, with an appropriate haircut, to avoid concentration and provide flexibility across different liquidity scenarios; and
- allow on-demand cash held by banks, same-day-access money market funds, and call accounts with highly-rated UK financial institutions.

2.10 Those respondents looking to be eligible for the standardised buffer ratio for simpler firms also strongly maintained that the liquid assets definition of Treasury bills with a residual maturity of less than three months was too tight and particularly onerous for smaller firms. They also questioned the liquidity value of treasury bills over other assets. Many suggested that certificates of deposit, Bank of England reserve accounts, overnight and call money held with UK clearing banks and government guaranteed bonds should be acceptable as liquid assets for regulatory purposes.

### *Self-sufficiency and group-wide management of liquidity*

2.11 Even though respondents were generally sympathetic to the policy considerations underpinning our proposals on self-sufficiency, many saw it as disproportionate, in particular for UK branches of foreign firms (depending on our willingness to grant waivers/modifications). Concerns centred around the following issues:

- inefficiency with regard to cost, allocation of resources across the group and administrative burden;
- risk of multiple pools of trapped liquidity and barriers to the free flow of international finance, potentially weakening international firms and, thereby, international financial stability;
- restriction on subsidiaries' ability to raise capital and reduction in the amount of credit they can pass on to customers, at a time when governments are encouraging banks to provide more credit;
- risk of reciprocal action by other regulatory authorities; and
- onerous whole-firm reporting requirements may dissuade branches and subsidiaries from applying for waivers altogether.

## Feedback received on CP09/13 Strengthening liquidity standards 2: Liquidity reporting

2.12 Feedback received to CP09/13, *Strengthening liquidity standards 2: Liquidity reporting*, echoed many of the responses received to the original pre-consultation on reporting in CP08/22. As before, respondents were largely supportive of our objectives but raised the following concerns:

- **the overall cost and burden of the new regime, especially for smaller firms:** Many respondents signalled that the proposed frequency and granularity of reporting made it costly and onerous, and that the burden would fall disproportionately heavily on smaller firms. The leap from monthly to daily reporting of the key data items (FSA047 and FSA048) in crisis times was considered particularly burdensome for firms that fall within the scope of our simplified ILAS regime.

- **the reporting requirements in the context of our waivers/modifications regime**: Respondents stated that CP09/13 was not clear about how our reporting requirements would extend to parents or whole-firms whose subsidiaries/branches apply for a modification or waiver of our wider liquidity regime.
- **the tight implementation timetable**: The Q1 2010 switch-on of the reporting regime, in CP09/13, was widely considered too tight, considering the cost and complexity of the required systems changes.
- **the FSA's ability to use effectively the data it plans to collect**: Respondents were sceptical about our ability to process and analyse the large volume of data we were planning to collect.
- **plans to share liquidity information publicly**: Respondents were deeply sceptical about any plans to share publicly our analyses from the data we are planning to collect, even on an anonymised basis. There were strong concerns that any public commentary on current levels of liquidity could adversely affect international perception of the UK financial services markets and turn into a self-fulfilling prophecy.

2.13 Respondents also offered detailed technical feedback on the specifics of the design of the forms as well as the data definitions. These are very helpful and have been incorporated into the final liquidity reporting provisions, as discussed in Chapter 10.

## Feedback on CP09/14, Strengthening liquidity standards 3: Liquidity transitional measures

2.14 Respondents were generally supportive of a phased implementation of the new liquidity regime. However, a number of concerns were raised:

- **Certainty of waiver modification decisions at an early stage**: Many respondents noted this as a key issue and asked for more clarity on the process and requirements. A key concern was the timing of the 'window' during which firms could apply for waivers and modifications and whether there would be adequate time once the outcome of an application was known such that arrangements could be made before the relevant switch-on date. Some respondents also asked about the approach to modifications where groups contained more than one class of firm. Respondents said that having a clear timeline and clear indication of what was required would help them plan and prepare for the new regime.
- **Request for more time to review the final policy**: Respondents noted that the final rules were not available. Respondents wanted to see the finalised rules so that they could confirm that their plans would deliver compliance and, where modification was necessary, that there would be sufficient time to do this and still achieve compliance by the start dates for the regime. Some respondents thought the period between the FSA publishing the final requirements for the regime and the start dates proposed by CP09/14 was too short, others thought the timeline achievable.

- **Regulatory reporting and systems development**: Some respondents commented about lengthy time periods required to design and build systems to support firms' implementation of the new regime and deliver compliance. Some respondents said that the final features of the regime, combined with whether a firm obtained a modification, would be an important element in determining the regulatory requirements that would apply to a firm and hence the nature and design of the systems to deliver compliance.
- **Systems and control requirements**: A number of respondents thought these should begin from 1 January 2010 rather than Q4 2009/December 2009. Some respondents suggested a date later in 2010, others suggested 2011 or later. It was thought that the new BIPRU requirements were more stringent than SYSC 11 and that firms need more time to prepare. With regard to branches, some respondents thought that all branches should convert from the SYSC 11 requirements to BIPRU at the same date (late 2010 or later).

# 3 Revisiting the rationale for liquidity regulation

## Introduction

3.1 In this chapter we revisit the rationale for liquidity regulation. The impact of the failures and near-failures of several financial institutions during the recent crisis has emphasised the significance of healthy banks to economic stability and reinforces the need for more effective liquidity regulation.

3.2 Our Occasional Paper Series 1 (OP1)[11] outlines three core objectives for financial regulation, which are:

- sustaining systemic stability;
- maintaining the safety and soundness of financial institutions; and
- protecting the consumer.

3.3 The purpose of regulation should be limited to correcting for market imperfections and failures. A clear market failure exists where firms have expectations of support from public authorities during a crisis such that some of the costs and risks of their inadequate liquidity risk management are borne by the taxpayer, rather than the firms and their customers throughout the cycle.

## Systemic stability

3.4 Where firms do not adequately self-insure against liquidity stress events, liquidity crises at individual firms can cause systemic instability. Despite widely-held assumptions, liquidity stress events are not rare in the global financial markets, and while the recent financial crisis has been on a particularly wide and severe scale, name-specific and market-wide liquidity stresses have occurred frequently over time. We discussed some of these in Annex 4 to Consultation Paper (CP) 08/22. By raising liquidity risk standards, we expect a reduction in the severity and probability of financial crises, as outlined in the cost-benefit analysis.

11 http://www.fsa.gov.uk/pubs/occpapers/OP01.pdf

3.5 The total cost of a bank failure is wider than the cost to the management and shareholders of the individual firm. As a result, firms do not have a sufficient incentive to build sufficient resilience into their liquidity stresses and hold appropriate levels of liquidity. One of the key drivers for more robust regulation is the market perception that central banks will intervene to supply liquidity during a market-wide stress or, where a firm is of systemic importance, for a firm-specific stress. Firms may take on imprudent levels of liquidity risk, generating excessive profits, in the knowledge that they will be bailed out in a crisis. Regulation should provide incentives to firms to manage risk prudently.

3.6 The importance of banks to the economy as providers of finance means that turmoil in the banking sector is extremely disruptive to the wider economy. As there are limited incentives for the managers and shareholders of banks to take account of the effect of their own liquidity distress on other banks and the wider financial system, there is a clear justification for regulation of liquidity risk, as it will force banks to adopt higher standards than they would naturally adopt, and to factor liquidity risk into their day-to-day operations.

## Soundness of financial institutions

3.7 As described in OP1, there is significant evidence to suggest that firms to a degree mimic each others' behaviour. For example, where the benefit of an action may not be immediately apparent or apparent for some time, and the costs are immediate (as is the case in holding buffers of liquid assets) firms may be incentivised to be collectively risky, rather than individually prudent given the relative short-term profitability of those two outcomes.

3.8 Regulation at the entity level is of paramount importance, as demonstrated by recent events. We have seen that in times of difficulty liquidity believed to be available to the whole group can be hoarded by the parent or seized by local authorities to protect their own depositors. Regulations must be put in place to ensure each entity has sufficient liquidity to meet its operational needs, so that local creditors and customers do not suffer as a result of the failure of internationally active groups.

## Consumer protection

3.9 As described in OP1, regulation is required in order to protect consumers, who include firm's counterparties. Subjecting firms to regulation that aims to better enable them to survive stresses will give consumers greater confidence.

# 4 Adequate liquidity and self-sufficiency

## Introduction

4.1 This chapter summarises the design and scope of the final policy as set out in BIPRU 12.1 and 12.2. A summary to Consultation Paper (CP) 08/22 responses relating to these provisions is contained in the detailed review of feedback (see Chapter 2).

4.2 The lessons learned from the ongoing crisis demonstrated that many firms did not have adequate liquidity buffers in place, both in terms of quantity and quality, to navigate a market-wide and firm-specific liquidity shock. In addition, some firms were unable to obtain liquidity support from elsewhere in the group during severe stress conditions.

4.3 Therefore in CP08/22, we set out our view that a strong liquidity policy should be based on sound high-level standards anchored in two high-level principles:

- firms should have adequate liquidity at all times; and
- by default, firms should be self-sufficient for liquidity purposes.

4.4 We clarified that, in the first instance, the firms themselves – and not the regulator, the central bank or the government – are responsible for effective management of liquidity risk and their maintenance of adequate liquidity.

4.5 Our final policy continues with the approach set out in CP08/22 but incorporates feedback on our original proposals. This chapter sets out amendments we have made to the overall liquidity adequacy rule and the principle of self-sufficiency, as well as changes to the overall scope of the regime.

## High-level feedback to the consultation

### *Adequate liquidity resources*

4.6 Respondents generally agreed with our approach to require firms to have adequate liquidity at all times, and to limit the amount of liquidity risk they run. We have made minimal changes to the proposed text for this section of the Handbook.

### *Self-sufficiency*

4.7 Our proposal that, by default, UK entities and branches should be self-sufficient for liquidity purposes drew most concern from respondents. Some said that the proposal was draconian, with several stating that it could be seen as protectionist and potentially damaging to cross-border capital flows, possibly leading to the fragmentation of the global economy if other regulators were to follow suit and 'trap' liquidity locally.

4.8 Some respondents stated that our proposal could trigger a fragmentation of the global financial system. Whenever regulations are tightened some firms are impacted to a greater extent than others. Our new standards, while tough, do not place undue restricticions on cross-border activity and financial integration; they will, however, affect certain business models. Many internationally-active firms have successfully operated liquidity models that will not be impacted materially by the new UK regime. We expect other supervisors to implement equally risk-based and non-discriminatory liquidity requirements. For these reasons we disagree with the respondents' concerns.

4.9 Other respondents raised concerns about the practical operation of self-sufficiency, and asked as to clarify further how it could be implemented, in particular in the case of branches, as they are part of a wider legal entity and their failure cannot be self contained.

4.10 On the other hand, a number of respondents were strongly supportive of our approach to self-sufficiency. Some domestic institutions identified that foreign groups had used global liquidity pools to undercut local pricing of lending, which was seen as a market distortion. A number of large UK and foreign cross-border groups regarded our proposed approach as prudent liquidity management.

## Final policy

### *Self-sufficiency*

4.11 We are proposing no overall change to the self-sufficiency approach set out in CP08/22. By default, UK firms will need to be self-sufficient for liquidity purposes, which means that they will not be permitted to rely on other part of their group to satisfy the *overall liquidity adequacy rule*. In essence, this is simply a reaffirmation of the FSA's existing Handbook (IPRU (BANK) LM), which states that:

> UK banks are expected to be able to stand alone, and therefore should normally monitor and manage their own liquidity separately from the liquidity of other institutions in the group.

4.12 However, based on respondents' requests for a clearer definition of self-sufficiency for branches and how this would be implemented in practice. We have clarified that a self-sufficient branch would only be allowed to count liquidity resources that are:

- under the day-to-day control of the branch's senior management;
- held in account with one or more custodians in the sole name of the UK branch;
- unencumbered; and
- attributed to the balance sheet of the branch.

4.13 The effect of this will be that a self-sufficient branch will need to hold a local operational liquidity reserve, calibrated predominantly through analysing the branch's exposure to the intra-group (or in this case to the inter-office) source of liquidity risk described in the Individual Liquidity Adequacy Standards (ILAS). However, we would have to base our assessment on the limited data that would be available to us, as we would only have branch data. BIPRU 12.9.11 provides more information on how we will calibrate this. The purpose of the reserve is to ensure that i) the branch has at least some capacity to meet local outflows; and ii) we would receive early warning of liquidity problems because we would be notified if the reserve began to be used.

4.14 Such a local reserve can never provide complete protection from the risk of insolvency or provide a guaranteed warning of impending problems. However, where we are particularly concerned about the implications of the whole bank liquidity position for the branch, we may expect the firm to maintain a local reserve of a size that would provide a degree of mitigation for the risks that the whole-firm liquidity position poses to customers who deal with the branch.

4.15 Because of the inherent limitations of branch-only supervision[12] and in line with our responsibilities under the Capital Requirements Directive (CRD) to cooperate with the home supervisor, our preferred option for supervising branches is to allow firms

12 Please refer to The Turner Review, Section 2.10.

to modify the self-sufficiency requirement and cease to apply the requirement to hold an operational liquidity reserve. This is subject to our being content with the supervision arrangements in place for the wider firm.

4.16 Our proposals in relation to both branches and UK solo entities are based on the premise that self-sufficiency is only a default position.

### *Modifications of self-sufficiency*

4.17 In practice, we expect that many of the affected firms will apply for, and receive, modifications of the self-sufficiency requirement. However, this is subject to being able to agree sensible cross-border supervision arrangements that, amongst other things, are non-discriminatory to the interests of UK creditors. Therefore, we believe that our new approach to modifications of our liquidity requirements will provide other jurisdictions with confidence that this method of cross-border bank liquidity supervision can work effectively, helping to keep markets more integrated.

4.18 So, while all UK entities will still have the option to seek to modify the self-sufficiency requirement, we have updated the basis for granting and maintaining them. For example, in the case of equivalency assessments, we have aligned our approach to that in solvency regulation and have moved to assessing whether a home supervisor's liquidity regime is broadly equivalent. Chapter 9 of this Policy Statement, gives further details.

4.19 In the case of branches, many respondents questioned the difference between the whole-firm liquidity modification and the whole-firm liquidity waiver. Based on this feedback, we have removed the whole-firm liquidity waiver option and will only offer whole-firm liquidity modifications. The *whole-firm modification* will have broadly the same effect as the current Global Liquidity Concessions (GLC) where, subject to certain conditions, the day-to-day supervision of liquidity is transferred to the home state regulator. Again, Chapter 9 gives further information.

4.20 In the case of UK solo entities, we are proposing no change to the approach we outlined in CP08/22 and will still be able to apply for an *intra-group liquidity modification* of the self-sufficiency requirement, subject to certain conditions.

# 5 Systems and control requirements

## Introduction

5.1 This chapter summarises our final systems and control requirements to be contained in the Handbook in BIPRU 12.3 and 12.4. The feedback to questions 12 to 23 from Consultation Paper (CP) 08/22 on this subject is contained in the detailed review of feedback (see Chapter 2) of this Policy Statement (PS).

5.2 In CP08/22 we proposed that all BIPRU firms should be required to meet certain standards in their liquidity risk management, stress testing and contingency funding plans (CFPs). We also set out responsibilities for senior managers and governing bodies.

5.3 The increased sophistication of the financial markets has added to the complexity and significance of liquidity risk management. In addition, the recent financial crisis has exposed weaknesses in the liquidity risk systems and controls of many firms across financial sectors, confirming the need for improvement in these liquidity risk standards.

5.4 Many smaller firms that do not engage in extensive maturity transformation responded to our consultation querying whether the proposed systems and control requirements were proportionate for their business models.

5.5 The systems and control requirements will apply to all BIPRU firms as, although liquidity risk management is of particular importance for institutions that engage in considerable maturity transformation such as banks and building societies, liquidity risk will be present in all BIPRU firms. Applying the systems and control standards across the board ensures that all firms have to consider their susceptibility to liquidity risk and implement systems and controls that adequately mitigate that risk.

5.6 The final policy requirements follow the approach we proposed in CP08/22, taking on board some of the constructive feedback received. In particular, we wish to reiterate firms have the ability to examine how the rules and guidance apply in relation to their business model and activities, so they can ensure that compliance is proportionate to the nature, size and complexity of their particular liquidity risks.

## High-level feedback to the consultation

5.7 Respondents generally agreed with our objective of requiring firms to have sufficiently robust systems and controls in their liquidity risk management framework. There was a consistent view that firms wanted the qualitative requirements to apply in a manner proportionate to a firm's nature, size and complexity.

5.8 We are aware of the clear message for there to be a proportionate approach to the liquidity risk management requirements and have actively re-examined the proportionality of the qualitative proposals. It must be borne in mind that although we seek to take note of the respondents' viewpoints, we will ultimately be restricted in our scope for adjustment by the Capital Requirements Directive (CRD). Although these proposals do not implement CRD-derived material they do take account of what the CRD amendments will require us to transpose into UK regulation as it is our intention ultimately to give effect in BIPRU to these requirements using the established FSA policy of copy-out approach to directive implementation.

5.9 Our conclusion against that background is that the consultation proposals are proportionate. In fact, the Handbook requires firms to implement BIPRU 12.3 and 12.4 in a proportionate manners.

## Final policy

5.10 We continue to consider robust systems and controls as essential to an adequate liquidity risk management framework. We are therefore applying the liquidity risk-management, stress testing and CFP requirements in BIPRU 12.3 and 12.4 to all BIPRU firms.

5.11 These systems and control requirements oblige a firm's governing body to express and check conformity with the firm's liquidity risk appetite. The outputs of a firm's stress testing and contingency funding plans should inform the governing body's decisions on whether the firm's liquidity risk appetite should be amended.

5.12 In addition, we have taken into account the *Principles for Sound Liquidity Management and Supervision*[13] dated September 2008 issued by the Basel Committee on Banking Supervision. BIPRU 12.3 and 12.4 are intended to be consistent with these principles.

### *Compliance*

5.13 Firms will take one of three options to demonstrate compliance with the new provisions, depending on whether and how they are subject to the Individual Liquidity Adequacy Standards (ILAS) regime outlined in Chapters 6 and 7 of this Policy Statement.

5.14 **For standard ILAS firms**, we expect their Individual Liquidity Adequacy Assessment (ILAA) to include an assessment of their compliance with BIPRU 12.3 and 12.4.

13 www.bis.org/publ/bcbs144.pdf.

5.15 In our Supervisory Liquidity Review Process (SLRP) we will undertake a review of their compliance and as a result of this review may vary the quantity of liquid assets, as described in Chapter 8, which they are required to hold. This should act as a strong financial incentive for the major firms to improve their systems and controls.

5.16 **Simplified ILAS firms** will need to undertake an Individual Liquidity Systems Assessment (ILSA) assessing their compliance with BIPRU 12.3 and 12.4. The ILSA must be proportionate to the nature, scale and complexity of their business and submitted to us on our request. These firms are not required to conduct an ILAA.

5.17 **Non-ILAS firms** must demonstrate compliance with BIPRU 12.3 and 12.4 through annual completion of systems and controls questionnaire, FSA055.

## Status of provisions

5.18 The proposed liquidity risk qualitative standards comprise overarching high-level principles outlining the key aspects of liquidity risk management and further high-level principles for specific areas of liquidity risk management, such as management of collateral, funds transfer pricing (FTP), stress-testing and CFPs.

5.19 These high-level principles are expressed as Rules in the Handbook, i.e. binding obligations on BIPRU firms. Evidential Provisions or Guidance supplement these Rules for specific areas of liquidity risk where we consider firms could benefit from clarification on how to demonstrate compliance with the standards, or where we have seen widespread deficiencies in firms' approach to liquidity risk management.

5.20 In conjunction with BIPRU 12.3.5R, we consider the structure of the provisions and our approach as providing firms with sufficient discretion to implement liquidity risk management standards that are proportionate to the nature, scale and complexity of their particular risks.

## Liquidity risk management

5.21 BIPRU 12.3 contains the overarching systems and control requirements for the management of firms' liquidity risk. Most remain as proposed in CP08/22.

5.22 Firms will be required to have in place robust strategies, policies, processes and systems to identify, measure, manage and monitor the liquidity risks to which they may be exposed, including intra-day risk. Firms should also have reliable management information to ensure appropriate and timely forward-looking information on the liquidity risk of the firm. This should include early warning indicators to identify increases in liquidity risk. For an ILAS firm this should contain an assessment of the risk that its liquidity resources might fall below the level we advise as appropriate.

5.23 A firm's governing body is responsible for establishing appropriate liquidity risk tolerances and for approving, reviewing and updating the firm's approaches to managing liquidity risk. Senior management are responsible for reviewing the firm's liquidity position including compliance with the liquidity adequacy rule and regularly reporting this information to the governing body.

### *Pricing liquidity risk*

5.24 A key weakness in firms' liquidity risk management has been designing and implementing an appropriate transfer pricing mechanism that aligned the commercial incentives in relation to individual products, business lines or strategies with the associated liquidity risks that each pose. This could greatly enhance firms' ability to understand the extent of their liquidity risk and the cost of providing liquidity.

5.25 The feedback to CP08/22 indicated some concern about the complexity and costs of pricing liquidity risk. We recognise that pricing liquidity risk can be a complex and sometimes costly exercise; however, the benefits of a comprehensive and robust liquidity risk pricing mechanism should outweigh the potential costs of developing or improving such a mechanism.

5.26 In particular we note that the recent crisis has exposed problems with business lines that were not charged for the liquidity risk they generated. Inadequate mechanisms for pricing liquidity risk can expose the firm and its counterparties to unacceptable risks.

5.27 To facilitate the accurate quantification of liquidity costs, benefits and risks in relation to all of a firm's significant business activities, we have provided Evidential Provisions to indicate the processes firms should consider implementing.

### *Intra-day management of liquidity*

5.28 Failure to manage adequately firms' intra-day liquidity positions has also been exposed by the recent crisis. The final Handbook text relevant to this has not changed materially from the consultation.

### *Collateral*

5.29 Recent events have also highlighted inadequacies in many firms' management of their collateral positions. It is prudent for firms to be diligent in the management of their collateral positions, as this awareness greatly enhances a firm's ability to manage its liquidity risk and limits the potential for unexpected impediments to the firm's ability to liquidate assets in a timely manner.

5.30 Firms must be able to manage their collateral positions actively, having a clear understanding of what assets have been provided as collateral, whether these assets could have been re-hypothecated or are capable of being re-hypothecated, whether they can be mobilised for liquidity purposes in a timely manner, and which assets are available for collateralisation.

5.31 Respondents to questions on collateral management in CP08/22 expressed concerns about the practicality of maintaining awareness of whether pledged assets have been re-hypothecated. We believe that an awareness of the collateralised assets that may have been re-hypothecated is achievable by reviewing contractual documentation to verify whether a counterparty has been given the right to re-hypothecate those assets.

5.32 In addition, firms which have stock-lending agreements with their custodians should be aware of whether and under what terms that collateral has been re-hypothecated.

5.33 By doing this, a firm will be better able to monitor changes in its collateral usage, and to estimate available collateral and asset flows. It would be prudent for firms to record which contracts allow re-hypothecation of assets placed as collateral by the firm.

## Stress-testing and contingency funding plans

5.34 A firm's stress-testing and CFPs will be key tools for it to demonstrate that it fully understands the nature of its liquidity risk and that it has feasible plans for dealing with liquidity stresses. All BIPRU firms will be required to comply with the systems and control requirements, and so will need to have robust stress-testing and CFPs.

5.35 The firm's governing body is ultimately responsible for ensuring that stress-testing and CFPs are appropriate for the firm on an ongoing basis.

### *Stress-testing requirements*

5.36 Stress-testing allows a firm to identify sources of potential liquidity strain, and ensure that current liquidity exposures continue to conform to the liquidity risk tolerance established by the firm's governing body. ILAS firms will need to report their stress testing results to us in their ILAA.

5.37 Firms will need to consider a range of factors in their stress-testing to demonstrate compliance with the Rules. These include consideration of the impact of stresses on pricing assumptions, shorter and longer-term stress scenarios, as well as coverage of the three stresses proposed in CP08/22: institution-specific, market-wide and a stress that combines the two.

5.38 The firm's governing body will need to ensure that the stresses and scenarios tested, along with the underlying assumptions, are appropriate to the firm and relevant to the liquidity risks run.

5.39 The stress-test results should be reviewed by senior management and reported to the governing body, highlighting any areas of vulnerability and proposing appropriate remedial action. They should also be used to develop the firm's CFPs, and in updating internal limits or the approach to the day-to-day liquidity risk management.

### *Contingency funding plan requirements*

5.40 The recent crisis demonstrated clear weaknesses in the CFPs of many firms. A CFP should set out a firm's strategy for addressing liquidity shortfalls in stressed conditions with the aim to ensure that a firm will have sufficient liquidity resources to meet liabilities as they fall due.

5.41 The outputs of firms' stress tests should feed clearly into the CFP design. As with the stress tests, the CFP must be approved and reviewed by the firm's governing body.

5.42 We would expect firms' CFPs to document formally the policies, procedures, and triggers for invoking the plan and set out prioritised management actions and roles and responsibilities for dealing with liquidity stress events. In addition, the CFP should be tested regularly to ensure it is pragmatic and workable.

5.43 The CFP should identify a range of potential funding sources that could be used in the event of a liquidity stress. The amount of funding that can be raised from these sources and how long it would take to do so should be considered. Firms should also consider the impact of market disruptions on their ability to raise funding through the proposed channels, and any reputational, legal, regulatory or operational constraints on their ability to execute the plan.

# 6 Individual Liquidity Adequacy Standards (ILAS)

## Introduction

6.1 This chapter explains the Handbook provisions set out in BIPRU 12.5 and 12.9. Feedback to questions 24 to 47 from Consultation Paper (CP) 08/22, which relate to this chapter, are contained in the detailed review of feedback (see Chapter 2).

6.2 The recent crisis has shown that our previous quantitative liquidity regimes did not ensure firms had the necessary resilience to withstand a severe and chronic liquidity stress. In CP08/22, we proposed the introduction of an individualised quantitative standard, based on three stress tests. The Individual Liquidity Adequacy Standards (ILAS) framework comprises an Individual Liquidity Adequacy Assessment (ILAA), a Supervisory Liquidity Review Process (SLRP) and the issuance of Individual Liquidity Guidance (ILG).

6.3 Clearly, quantitative standards will not prevent all firm failures. The role of quantitative liquidity standards is to ensure that firms are better positioned when a crisis occurs.

6.4 Our final policy maintains this approach, but we have made several amendments as outlined in this chapter, taking account of feedback received. As we describe in Chapter 1, we have not finalised our view of the appropriate calibration of liquidity standards. We intend to do this in the near future.

## High-level feedback to the consultation

6.5 In CP08/22 we proposed the ILAS stress-testing regime. We received extensive feedback from the industry which was broadly supportive of the proposals. The key messages were:

- we should set our risk appetite to ensure firms could pass the toughest combination stress;
- we should distinguish more clearly those aspects on which we were being prescriptive and those where firms were expected to make their own assumptions or judgement; and

- in some areas (e.g. loss of secured funding and closure of the foreign exchange markets) our proposed prescription was perceived as being too tough.

6.6 In general, we agree that a severe combination stress would cause the greatest outflows and that we should be clearer about areas of prescription. However, we disagree that the prescriptive assumptions over repo funding and foreign exchange markets are too tough. Therefore they remain in the final policy.

## Supervisory Liquidity Review Process (SLRP)

6.7 We will conduct a SLRP at a frequency depending on the risk profile of a firm, with the aim of forming a view of any ILG to be given to a firm. In addition to a firm's ARROW risk assessment and any other issues arising from day-to-day supervision, including its capital adequacy and market perception of the firm, we will review the firm's:

- most recent ILAA (see BIPRU 12.5);
- systems and controls for liquidity risk (see BIPRU 12.3); and
- internal stress testing and contingency funding plan (CFP) (see BIPRU 12.4).

6.8 We will take a risk-based and proportionate view, focusing on the particular firm's approach to dealing with the risks it faces. The outcome of the SLRP will be a communication with the firm of appropriate ILG, as outlined in the following section.

## Individual Liquidity Guidance (ILG)

6.9 As a result of the SLRP, and following an internal validation process, we will provide ILG to a firm. We will communicate our conclusions to the firm's governing body. ILG will contain guidance about:

- the quantity of a firm's liquid asset buffer; and
- the firm's funding profile.

6.10 A firm must monitor its conformity with its ILG, which is a dynamic requirement depending on the firm's then-current liquidity risk profile, on a daily basis. We will also regularly monitor a firm's liquidity risk profile through our reporting regime.

6.11 In CP08/22 we proposed that ILG would be guidance on the overall liquidity adequacy rule. The draft Rules also stated that we recognised that during a stress a firm is likely to use its liquidity buffer. Some respondents questioned how we would view the usage of the buffer in these circumstances.

6.12 We have now added further Guidance to the Handbook text explaining the interaction between ILG and Threshold Conditions. In the new BIPRU 12 regime, ILG will represent the amount of liquidity resources that we think a firm needs to maintain.

6.13 As a result of this change we have added a new section to the Handbook, BIPRU 12.9, which puts in place a some regulatory intervention points, to clarify the results of a firm's failure to meet agreed ILG. These regulatory intervention points make clear that a failure to meet ILG does not, in itself, imply a failure to meet Threshold Conditions. The provisions in BIPRU 12.9 make it clearer how we will assess compliance with Threshold Conditions in such situations.

### *Regulatory intervention points*

6.14 When we issue ILG, we will assume that the firm accepts the guidance unless, within one month of the guidance being issued, we receive written representations of why the firm believes the guidance is inappropriate. Where agreement cannot be achieved, we will consider using our powers under the Financial Services and Markets Act 2000 (FSMA) (for example, our power under Section 45 to vary, on our own initiative, a firm's *Part IV permission*) so as to require a firm to hold the level of liquidity set out in the ILG. Where a firm does not accept its ILG and the FSA uses its powers under section 45 of FSMA, the firm will not be able to benefit from the provisions in this section. This is because in this case, meeting ILG would be a condition of authorisation.

6.15 Where a firm has accepted its ILG we will require it to monitor its liquidity position against the guidance on a daily basis. As soon as a firm becomes aware that it either fails to meet or is likely to fail to meet its ILG it must immediately notify us in writing to explain why. In addition, it must implement immediately its CFP.

6.16 Within two days of notifying us, the firm must submit to us, in writing, a liquidity remediation plan. This must set out in detail the firm's forward estimates of the evolution of the size of its liquid assets buffer and of its funding profile. In addition, it must set out the management actions it intends to undertake to remedy the failure to meet ILG. For each management action included in the plan the firm should set out:

- the amount of funding it intends to raise;
- the intended funding providers;
- the maturity profile of the intended funding;
- clear timescales for achieving each of the actions; and
- an adequately reasoned assessment of the likelihood of success in delivering each of the actions.

6.17 We will review the quality of the liquidity remediation plan, and form our own view of the likely success of each management action. We will also track progress of the plan to agreed timescales. This will be a significant input into our ongoing assessment of whether the firm in question meets Threshold Conditions. In assessing compliance with Threshold Conditions in these circumstances, we will not just be assessing the adequacy of the financial resources but also the adequacy of the firm's management.

## Our risk appetite

6.18 In CP08/22 we proposed setting our risk appetite in terms of the liquidity stresses we expect firms to be able to withstand without reliance on support from the public authorities. We will continue with this approach, but have made some changes, outlined below, as a result of feedback to the consultation.

### *Level of prescription*

6.19 In CP08/22 we discussed the benefits and drawbacks of our prescribing specific risk factors within the stress tests. Feedback was polarised, with some respondents wanting more prescription and some less; however, most firms were in favour of ensuring they were able to make their own assumptions.

6.20 One firm, for example, said 'we strongly believe that the quality of any risk management process is negatively correlated to the level of prescription'. Those in favour of greater prescription were concerned about consistency of treatment between firms.

6.21 We recognise this is a delicate balance and we have implemented this in the Handbook in three ways:

- for certain risk drivers we specify prescriptive requirements (e.g. an inability to roll wholesale funding from credit-sensitive investors for a period of two weeks);
- for other risk drivers we give guidance as to the principles we expect firms to use (e.g. retail deposits covered by insurance schemes are likely to be more sticky than those which are not); and
- for the remainder we are neither prescriptive nor give guidance and ask firms to assess these risks themselves.

6.22 In the next section we highlight where the Handbook text requires firms to follow prescriptive assumptions.

### *The ILAA stresses*

6.23 In CP08/22 we proposed that firms consider in their ILAA three separate stresses: an idiosyncratic liquidity stress, a market-wide liquidity stress and a combination of the two. We received feedback from CP08/22 that, as a combination stress will likely result in larger liquidity outflows than either of the individual stresses, we should set our risk appetite in terms of surviving a combination stress. We agree with this feedback and will set our risk appetite for individual firms taking account of the effects of a combination stress.

6.24 However, we note that firms are required to consider the stresses individually in their contingency funding plans as the availability and success of individual management actions would be different in each case. In addition, a firm may have less ability to manage its franchise risk in an idiosyncratic stress without giving negative signalling effects to other market participants. Therefore, we propose that a firm's ILAA covers the results of the three separate stresses.

6.25 In CP08/22 we said that the short-term name-specific stress should last two weeks, but we were silent as to the length of the longer-term stress.

6.26 A key lesson learnt from the financial crisis is that firms did not pay sufficient attention to the deterioration of their liquidity position beyond an initial short-term time horizon. Therefore, we have decided that the market-wide stress should last for a period of three months.

6.27 To determine the appropriate outflows, our rules require firms to make the following assumptions in their ILAA:

<table>
<tr><th>First two weeks of stress</th><th>Remainder out to three months</th></tr>
<tr><td colspan="2">Idiosyncratic impact</td></tr>
<tr><td>Inability to roll over wholesale funding that is: (i) unsecured from credit-sensitive depositors or (ii) not secured on the most liquid securities.</td><td>Sustained leakage of funds</td></tr>
<tr><td>Sizeable retail outflow</td><td>Sustained outflow</td></tr>
<tr><td>Reduction in amount of intra-day credit provided to a customer by its settlement bank;<br>Increase in payments withheld to a direct participant by its counterparties; and<br>Increase in need for all firms (both direct and indirect participants) to make payments.</td><td>N/A</td></tr>
<tr><td>Closure of FX markets</td><td>N/A</td></tr>
<tr><td colspan="2">Intra-group deposits repaid at maturity, intra-group loans treated as evergreen.</td></tr>
<tr><td colspan="2">Downgrade of long-term rating, proportional impact of all other downgrade triggers.</td></tr>
<tr><td colspan="2">Market-wide impact</td></tr>
<tr><td colspan="2">Uncertainty as to the accuracy of the valuation of a firm’s assets and those of its counterparties.</td></tr>
<tr><td colspan="2">Inability to realise or ability to realise only at excessive cost particular classes of assets.</td></tr>
<tr><td colspan="2">Risk aversion among participants in the markets on which the firm relies on for funding.</td></tr>
<tr><td colspan="2">Uncertainty as to whether many firms will be able to meet liabilities as they fall due.</td></tr>
</table>

6.28 In conducting its ILAA a firm must calculate its net outflows, before management actions, separately for each risk driver. The size of the liquidity buffer required will take these calculations into account.

6.29 For the initial two-week period the stress assumes that a firm will have to meet its outflows solely in the manner described in Chapter 8, or if permitted by us from other members of the group (see Chapter 9). For the period from two weeks to three months, as part of our SLRP, we will make a qualitative assessment of a firm’s compliance with BIPRU 12.3 (Liquidity risk management) and also BIPRU 12.4 (Stress testing and contingency funding). Based on this qualitative assessment we may vary the outflow requirement the firm has to meet.

*Consistency*

6.30 In giving ILG we will make comparisons with assumptions used by other firms and our technical areas will conduct benchmarking exercises to ensure standards do not slip over time.

## Individual liquidity adequacy assessment (ILAA)

6.31 A firm's ILAA should be proportionate to the nature, scale and complexity of its business and documented so that it can be submitted to us upon our request. When the BIPRU 12.5 requirements switch-on for a firm, as outlined in Chapter 11, it will need to have produced its first ILAA.

6.32 We expect a firm to carry out its ILAA at least annually to ensure that it serves its purpose, or more frequently if changes in the business, strategy, nature or scale of its activities or the operational environment suggest that its level of liquidity resources or stress assumptions may no longer be adequate.

6.33 If the firm is part of a wider financial group, it may be appropriate for the firm's ILAA to take into account the financial resources available to it from other parts of its group, but only to the extent that such reliance is permitted by us through a rule modification process (See Chapter 9).

## ILAA methodology

6.34 To help a firm's ILAA achieve its desired purpose, we have identified the following sources of liquidity risk that we think could crystallise as a result of a stress:

- wholesale secured and unsecured funding risk;
- retail funding risk;
- intra-day liquidity risk;
- intra-group liquidity risk;
- cross-currency liquidity risk;
- off-balance sheet liquidity risk;
- franchise viability risk;
- marketable assets risk;
- non-marketable assets risk; and
- funding concentration risk.

6.35 So we propose that a firm's ILAA consider the effect the stresses would have on each of these sources of liquidity risk and the net level of outflows that would occur before any management actions.

6.36 The ILAA will involve making assumptions about the behaviour of contractual and non-contractual liabilities. We expect any behavioural assumptions, such as the stickiness of on-demand deposits, to be evidenced, documented and consistent with the severity of the stresses outlined in BIPRU 12.5.

6.37 The following section of this Policy Statement (PS) highlights areas where the Handbook text has changed, been clarified or been added to as a result of the consultation process.

## Sources of liquidity risk

### *Wholesale secured and unsecured funding risk*

6.38 Many firms that responded to CP08/22 stated they would prefer us to be prescriptive as to what they should define to be their wholesale and retail liabilities. We propose achieving that through our reporting regime. Firms should consider their retail deposits as those reported on data item FSA048 in lines 54 and 55 and their wholesale liabilities as all other liabilities.

6.39 In addition, it was apparent we had been insufficiently clear about the treatment of secured funding, with many firm responses suggesting either that we should split the wholesale funding risk driver or indicating they considered it to be marketable assets risk.

6.40 As the funds providers in the wholesale secured markets tend also to be funds providers in the wholesale unsecured markets we suggest that firms consider counterparty behaviour during the stresses in this risk driver. However, the impact of any reduction in the market value of collateral available to pledge to secured funding providers should be considered as marketable assets risk.

6.41 We will ask the firm to determine the expected behaviour of its wholesale liabilities under the stresses, in terms of volume and speed of outflow, bearing in mind that this will materialise as acute outflows over two weeks followed by a gradual leakage of funds for the remainder of the three-month period.

6.42 In particular, for the initial two-week period we would expect credit-sensitive wholesale unsecured borrowings and repo transactions not secured by the most liquid securities to fail to roll over. For the remainder of the stress we would expect a firm to assess the extent to which it will be able to roll over its wholesale funding.

6.43 We have given guidance in the Handbook on some assumptions firms should use about the propensity of funding to roll over or be withdrawn. However, we have not been prescriptive over the quantitative degree to which firms should assume this beyond the initial two weeks.

6.44 We understand that a limited portion of non-retail borrowings from non-credit-sensitive borrowers may roll over in the initial two week period. We consider this category to include deposits from Small and Medium-size Enterprises (SMEs) and certain non-financial large corporates and other entities (we refer to them in the

Handbook as Type B deposits). We give guidance in the Handbook as to how firms should assess which deposits fall into these Type A or Type B categories.

### *Retail funding risk*

6.45 As outlined in paragraph 6.38, many firms that responded to CP08/22 stated they would prefer us to be prescriptive on what they should consider to be their retail liabilities. We propose achieving that through adopting definitions used in our reporting regime and firms should consider their retail liabilities as those reported on data item FSA048 in lines 54 and 55.

6.46 We will then ask the firm to determine the expected behaviour of those liabilities and estimate the net outflows before any management actions that could occur under the stresses. In general, we expect retail funding to be stickier than wholesale funding.

6.47 To assess behaviour under the stresses, a firm should categorise its retail liabilities according to: value, maturity, estimated speed of outflow, product type, interest rate applied and any other factor that it considers relevant to its deposit structure.

6.48 In the Handbook we give guidance as to the factors a firm should consider using in assessing the stickiness of its deposits. It should then categorise its deposits as Type A or Type B depending on the relative degree of stickiness, in a similar fashion to the simplified ILAS approach.

6.49 However, the quantitative stresses for the simplified regime should not be used as a shortcut for an ILAS BIPRU firm's analysis of its own stressed outflow analysis in its ILAA.

### *Intra-day liquidity risk*

6.50 All respondents thought that we covered the main aspects of this source of liquidity risk. As such, we have made no substantive changes to what we proposed in this section of CP08/22.

6.51 However, we have made some minor amendments which mainly clarify which provisions relate to direct participants in payment and settlement systems and which to indirect participants.

6.52 Direct participants will be required to measure how much liquidity they need in normal times to fulfil their own and customer's payments and how that amount could unexpectedly change under the ILAA stresses in BIPRU 12.5.9 to 12.5.13. As part of this analysis, direct participants will be required to specify the points in time during the day where their required liquidity is or could be greatest. Further, a direct participant that provides intra-day credit to customers will still be required to estimate the effect on its own liquidity position of a default by the customer to which it has provided the largest credit limit.

6.53 Indirect participants will also be required to understand the value and timing during the day of the payments they need to make and expect to receive and how they could change under the ILAA stresses, so they are able to assess the effect on their own liquidity positions, in the event of an operational, or other, disruption at its settlement banks. Such a determination will necessarily require indirect participants to have a thorough understanding of terms governing any credit lines extended to them.

### *Intra-group liquidity risk*

6.54 In assessing its intra-group liquidity risk a firm should include an assessment of both the behaviour of contractual intra-group assets and liabilities and also the impact of an equivalent stress on members of its group to the extent those members of the group might rely on it for liquidity support.

6.55 A firm may only rely on inflows from other members of the group if permitted to do so by us through the granting of a modification.

6.56 Short-term intra-group assets and liabilities have been proven to be a source of instability during a stress. In particular, during a severe stress, different entities within the group may have different fiduciary responsibilities or face legal or regulatory impediments to transferring liquidity.

6.57 So the final policy prescribes that in relation to existing contractual relationships with members of its group, a firm should assume all loans are evergreen and deposits do not roll over, irrespective of their contractual maturity. We believe this is the likely impact of a severe stress.

### *Cross-currency liquidity risk*

6.58 We have clarified in the final policy that we expect firms to assume they do not have access to the foreign exchange markets, and in particular to the FX forward markets for the initial two-week period of the stress, for the purposes of calculating their net outflows before management actions. In practice this means firms will be unable to use inflows in one currency to meet outflows in others for this period.

6.59 In addition a firm will need to ensure that the currency composition of its liquidity buffer is broadly matched with that of its net outflows for this initial two week period as outlined in Chapter 8.

### *Off-balance sheet risk*

6.60 To assess its off-balance sheet liquidity risk, a firm should first identify all off-balance-sheet activities that might affect its cash flows. It must then calculate its expected cash flows arising from those off-balance sheet activities and estimate how its cash flows could unexpectedly change in quantity and timing under the liquidity stresses, paying particular attention to:

- derivatives;
- contingent liabilities;
- commitments given and received; and
- liquidity facilities to support securitisation programmes.

6.61 We have expanded significantly our guidance in relation to derivative risk following feedback on the consultation. In relation to its derivatives a firm should:

- assess the impact of downgrades of its own credit rating, in accordance with the methodology outlined in BIPRU 12.5, on its requirement to collateralise counterparty exposures or make termination payments;
- assess the impact of movements in market prices on the firm's contractual obligations to collateralise counterparty exposures, recognising that such movements in value may create off-setting flows on the firm's other obligations and that even for market-neutral derivative positions, some may require collateral to be posted and some may not;
- assess the impact of changes in the firm's initial margin position either as a result of a central counterparty clearing house varying initial margin requirements or as a result of its counterparties terminating or novating bilateral derivative positions;
- assess the likelihood that counterparties may exercise rights to substitute cash or securities collateral pledged to the firm should there be a liquidity squeeze in certain asset classes or funding markets in one currency relative to another;
- assume that any uncertainty surrounding the valuation of complex derivative instruments may lead to disputes with counterparties and frictional liquidity requirements; and
- assess the likelihood that counterparties may seek to terminate or novate uncollateralised derivative positions to reduce their credit exposure to the firm.

6.62 The ability of sponsored securitisation programmes to repay their liabilities may be linked to the credit-worthiness of the sponsoring firm, in which case a firm should assume credit-sensitive wholesale borrowers would not distinguish between the ability of the firm to meet its obligations and the obligations of the securitisation programmes.

6.63 A firm should also assess the circumstances in which it will choose to provide liquidity support to sponsored and third-party structured vehicles beyond its contractual obligations (if any). It should assess the impact on its cash flows of its choosing to do so both in normal financial conditions and under the liquidity stresses.

6.64 In addition a firm should, in the case of its commitments given, assess the likelihood of those commitments being drawn and any collateral it may receive on committed secured facilities.

### *Franchise viability risk*

6.65 In estimating its liquidity outflows under the ILAA stresses, a firm will assess the impact of the stress on its contractual off-balance sheet positions, assets and liabilities. However, it will require additional liquidity resources for the duration of the stress for any non-contractual actions it takes to support its core business franchise and/or protect its reputation and/or avoid negative signalling effects.

6.66 For the purposes of assessing its franchise viability risk, we will require a firm to estimate the outflows under the liquidity stresses, caused by the extent to which it will:

- enter into new lending agreements with its wholesale and retail customers;
- buy back its issued debt, and the debt of sponsored securitisation vehicles to maintain confidence in its viability;
- experience wholesale and retail customers demanding early repayment of fixed-term deposits and the extent to which it will meet, or feel obliged to meet, those requests;
- provide liquidity support beyond its contractual obligations to members of its group, sponsored securitisation programmes or managed investment funds; and
- exercise call options on its debt and debt issued by securitisation trusts where investors are expecting those options to be exercised and where failure to do so would send negative signals about the viability of the firm.

### *Marketable assets risk*

6.67 A firm may, in the normal course of business, raise funding from the repo markets, or for liquidity management purposes hold a stock of assets which it plans to sell outright or repo to mitigate the effect of a liquidity stress.

6.68 Although we will only permit a firm to generate additional inflows in the stress period from its liquid asset buffer (or if permitted by us, members of its group), a firm may incorporate different marketable assets into its contingency funding plan. To the extent that these assets may behave differently under stress conditions than under normal business conditions, a firm will be subject to marketable assets risk.

6.69 In undertaking the assessment set out in the previous paragraph, a firm should consider that the behaviour of its marketable assets is likely to depend on several different factors. These include market-related factors, such as stressed haircuts or forced-sale losses and the firm's operational capability to generate funding from those assets in a timely manner.

6.70 For the purpose of its ILAA submission, a firm will also be required to provide an analysis of the profile of its marketable assets. This analysis must identify the firm's marketable assets according to asset class, maturity, currency, their eligibility for use in central bank monetary operations and any other characteristics which it considers relevant. It must also contain an assessment of the degree of diversification achieved across its marketable assets.

### *Non-marketable assets risk*

6.71 In addition to using marketable assets a firm may in the normal course of business or as an option in its contingency funding plan to mitigate liquidity stresses, raise funding from securing its non-marketable assets, i.e. those assets which are not realisable through sale or repo.

6.72 Non-marketable assets, such as residential mortgage loans; commercial mortgage and other loans; and credit card and vehicle loan receivables can be used to generate liquidity by using them in securitisation or covered bond programmes. However, we note that in the recent crisis there were very few opportunities to raise funding in this manner from the private markets.

6.73 The assessment of this risk is particularly important for a firm which ordinarily does not raise funding from its non-marketable assets in this way and places proportionately greater reliance on securitisation programmes as compared to other funding strategies to generate liquidity.

6.74 To meet the requirement set out in previous paragraphs in relation to non-marketable assets risk associated with asset securitisations, a firm must in particular have regard to:

- the existence and consequences of early amortisation triggers dependent on the financial performance of the assets; and
- its financing of assets which are warehoused before their securitisation.

### *Funding concentration risk*

6.75 A firm that has concentrated funding sources potentially faces the additional risk of, and greater impact from, a liquidity stress. So, as part of its ILAA, we will require a firm to assess the degree of concentration in its liquidity resources.

6.76 We list in the Handbook a number of factors a firm should take into account, amongst others, when considering the extent to which its liquidity resources are concentrated.

# 7 Quantitative standards for simpler firms

## Introduction

7.1 This chapter summarises our final policy on quantitative standards for simpler firms in BIPRU 12.6. This incorporates feedback on our original proposals received in response to questions 48 – 55 in Consultation Paper (CP) 08/22. A summary of CP08/22 responses to the quantitative standards for simpler firms is contained in the detailed review of feedback (see Chapter 2).

7.2 We recognised in CP08/22 that the full quantitative regime would be challenging for smaller firms and disproportionate to their risk profiles. Firms with simple business models and straight-forward liquidity risks should be enabled to focus on management of those risks rather than on compliance with an individualised regime designed to cover a wider set of risks.

7.3 In CP08/22 we proposed allowing firms with simpler business models to use a standardised buffer ratio instead of adhering to the full Individual Liquidity Adequacy Standards (ILAS) requirements. This offered less complex compliance and reporting requirements for such firms. Our original proposal allowed certain mortgage banks and building societies doing only sterling-denominated business to use the simplified ILAS regime. However, it was proposed that simpler firms would be required to conduct Individual Liquidity Adequacy Assessments (ILAAs).

7.4 Our final policy continues with the broad approach set out in CP08/22, amended to take account of constructive feedback. Simpler firms will have the opportunity to comply with the simplified ILAS regime, with markedly less complex quantitative standards. Feedback from CP08/22 suggests that the eligibility criteria for simplified ILAS should be widened to cover a somewhat wider range of simple business models. In addition, we now plan to use our waiver powers to control admission to the simplified regime.

## High-level feedback to the consultation

7.5 CP08/22 respondents agreed that firms with less complex business models should be able to follow a simpler approach to meeting our standards. However, they suggested that the proposed eligibility criteria were too narrow.

7.6 Respondents commented that modest foreign currency exposures should not necessarily make a firm too complex for the simplified ILAS regime. Most respondents also said that a liquid assets buffer consisting only of Treasury bills would not be sufficient to ensure adequate resilience for simpler firms.

## Final policy

7.7 We have removed the requirement for simpler firms to conduct ILAAs and have widened the range of liquid assets that simpler firms can use in their buffers to include all liquid assets that standard ILAS firms can use, together with investments in Qualifying Money Market Funds (QMMF) that meet certain criteria. Simplified ILAS liquid asset definitions are discussed in Chapter 8.

7.8 Other changes include the period of outflow that should be covered – three months instead of 90 business days. Also, the Handbook now contains guidance on how to calculate the ratio from the FSA047 and FSA048 returns.

### *Foreign currency exposure*

7.9 We have also recast the currency restriction. Firms holding assets in US dollars, euros or sterling will be eligible, and a *de minimus* 0.5% of assets and liabilities may be held in other currencies.

### *A wider range of eligible business models*

7.10 The eligibility criteria for the simplified ILAS regime have been amended to allow a wider range of simple firms to use the regime. Because of this, we shall now apply a waiver process for firms that want to opt into the simplified ILAS regime.

7.11 Mortgage banks and building societies with simple business models will remain eligible for the simplified ILAS regime. Our updated position will also allow certain firms with the following business models to apply simplified ILAS standards:

- simple retail banks;
- banks with a 'money box' style business model (where deposits are aggregated and then deposited with a credit institution); and
- Certain small wholesale firms predominantly funded by a parent

7.12 Firms that meet any of these three sets of conditions, in addition to the foreign currency restrictions, could be eligible for simplified ILAS, subject to a waiver approval:

| Business model | Simplified ILAS eligibility criteria |
|---|---|
| Simple retail banks and building societies | At least 70% of the firm's total assets are accounted for by loans to individuals; **and**<br>less than 25% of the firm's total funding is from wholesale sources. |
| 'Money box' banks | At least 70% of the firm's total assets are accounted for by certain specified assets, such as in money market instruments with less than three months residual maturity; **and**<br>less than 25% of the firm's total funding is from wholesale sources. |
| Small wholesale banks | 80% of the total funding is from the parent; **and**<br>total balance sheet assets must be less than £1bn. |

### *Retail deposit outflow coverage*

7.13 Recent experience of retail runs shows that the retail outflow percentage of 5% on which we consulted in CP08/22 would be too weak to ensure resilience against retail stress scenarios. We also believe that the simplified ILAS retail stress standards should depend on the quality of simpler firms' retail book. Our updated standard therefore requires firms with less stable retail deposits to withstand a more onerous retail stress than those with more stable retail deposits.

7.14 Simplified firms will need to prepare a policy statement on how they will split their retail deposits into two categories; this will be reviewed by us as part of the waiver process for firms which apply to use the simplified ILAS regime. The first category would comprise the firm's lower-quality retail deposits. We expect that this would include retail deposits that have been acquired quickly through price-focused advertising, large balance retail deposits that are in excess of the deposit protection ceiling, and retail deposits raised through online accounts where the technology makes switching a less burdensome process. A stress of 20% would be applied to lower-quality retail deposits. The second category should comprise the most stable retail deposits – a 10% stress will be applied to retail deposits in this category.

7.15 Our Handbook text provides guidance on how firms' retail deposits should be split between the two categories.

# 8 Composition of liquid assets buffer

## Introduction

8.1 This chapter summarises the final Handbook provisions in BIPRU 12.7. Feedback to CP08/22 questions 56 and 57 about liquid assets is contained in the detailed review of feedback (see Chapter 2).

8.2 Experiences during the financial crisis demonstrated that some investments previously considered 'liquid' proved not to be so and that many firms' liquid asset buffers were of insufficient quality and size.

8.3 In CP08/22 we therefore proposed that all ILAS BIPRU firms should be required to maintain a buffer of high-quality liquid assets in the form of high-quality government bonds, central bank reserves and supranational debt.

8.4 We have continued with this approach in the final policy whilst making some adjustments in the light of constructive feedback received. We recognise, however, that even large holdings of government bonds cannot be the whole answer to liquidity risks. To survive a liquidity shock, a firm needs to demonstrate to the markets that it is solvent, viable, well-run institution. Our policy is predicated on the fact that a diversified set of holdings in government bonds is likely to provide the most effective buffer in a liquidity crisis.

## High-level feedback on the consultation

8.5 A majority of respondents considered that our proposed approach was too restrictive; the most common view was that the regulatory definition of liquid assets should be whether the assets could be discounted at central bank liquidity facilities.

8.6 However, some respondents supported our proposal. One respondent noted that our proposed definition was actually wider than the definition it used internally, while another remarked:

> The assets you list as suitable for the liquidity buffer are in our opinion all such as would remain most liquid in the event of extreme conditions in the markets and would therefore serve the purpose of providing a liquidity buffer.

8.7 Most respondents' concerns related to the opportunity cost to individual firms of holding buffers of highly-liquid and therefore low-yielding, assets. However most respondents did not weigh the potential impact on taxpayers of alternative approaches.

## Final policy

### *A stock of high-quality government bonds*

8.8 Our final policy will require all ILAS BIPRU firms to maintain a stock of high-quality government bonds, central bank reserves and bonds issued by multi-lateral development banks.

8.9 Based on detailed feedback we have made several amendments to the policy. Firstly, the final policy now states that where sight deposits at the relevant central bank are eligible for the liquidity buffer, tradable securities issued by that central bank are also eligible for the buffer.

8.10 Secondly, we have reconsidered the list of governments whose bonds are acceptable within the liquidity buffer. As a result we have included Australia within the government bonds definition.

8.11 Finally, we received extensive feedback from respondents that have significant exposures to currencies other than those included in the liquidity buffer. These respondents asked that the list be widened to take these other currencies into account. This was specifically the case where a UK bank had a branch in another jurisdiction, or where a foreign group owned a UK-incorporated bank.

8.12 It remains our policy position that firms' liquidity buffers should only contain the highest quality government bonds. However, where a local supervisor sets a regulatory requirement to hold a liquidity buffer in local currency, we will make limited allowance for this when setting Individual Liquidity Guidance (ILG) on a whole-firm basis.

### *Buffer requirement is scaled according to quality of liquidity risk management*

8.13 Our new liquidity standards are based on an initial two-week firm-specific and market-wide stress with the wider market-wide stress continuing out to three months. We will require a liquidity buffer to take into account the assumed net outflows prior to management action over this period. Beyond the initial two weeks, the actual size of the buffer we will require will vary depending on our view of the quality of risk management within the firm. We would normally expect firms with low quality stress testing, contingency funding plans and governance to maintain larger buffers than those that have good quality systems and controls.

### *Turnover requirement*

8.14 In CP08/22 we proposed that firms should be required to turn over their liquidity buffers regularly in private markets. By this we meant that firms would regularly need to generate liquidity from their liquidity buffers through sale or repo. We received few comments on this proposal, but the feedback received was not supportive of the approach. For example, one respondent said:

> Testing the market … may be dangerous, sending the wrong signal to other market participants. … [F]irms who are seldom active in markets should only be required to research market prices periodically rather than actually executing trades.

8.15 We believe that the respondent's concern over the existence of a turnover requirement justifies the need for such a provision. If generating liquidity from a firm's buffer gives negative signals about its financial health it cannot serve the purpose for which it is designed. If a firm regularly and randomly turns over its liquid asset buffer the signalling effect will be reduced, as the markets will not be able to link the act of accessing the repo markets with signs of stress. We will continue with this approach.

### *Requirement to access emergency central bank facilities regularly*

8.16 In addition to the turnover requirement, the final Handbook provisions also contain a requirement for firms to access regularly and randomly all relevant central bank emergency facilities to which they have access in both size and duration. This would include the Bank of England's discount window facility; the European Central Bank's (ECB) marginal lending facility and the Federal Reserve Discount Window.

8.17 The purpose of this provision is similar to the turnover requirement. Regular access to these facilities by FSA-regulated firms will reduce any stigma associated with usage of the facilities and remove operational impediments to emergency liquidity assistance.

### *Make-up of the buffer*

8.18 We expect a firm's liquidity buffers to consist of an appropriate mix of eligible assets and that it not be constructed to 'chase yield'. We will monitor this through our reporting. For example, a large internationally-active bank might be expected to have some diversity of high-quality government bonds, taking into account liquidity in different parts of the government bond markets and different sections of the yield curve. The currency denomination of government bonds should take into account potential problems in the bank's access to FX swap and spot markets under stressed conditions, especially considering the relevant settlement cycles for FX settlement systems. For these reasons, we would expect a domestic bank with predominantly sterling liabilities to hold most of its buffer in gilts.

### *Widened eligibility list for simplified firms*

8.19 We recognise that it could be unreasonable to require some smaller institutions to hold large buffers of government bonds. Small institutions will not have the market access or scale to maintain repo capability. The Bank of England has announced that all firms eligible in principle to pay Cash Ratio Deposits, whether or not their balance sheets are in practice of a size that requires them to do so, will in future be eligible to apply for access to the Bank's Sterling Monetary Framework facilities, including a reserves account. This provides an alternative means for small institutions to satisfy the simplified ILAS regime.

8.20 To address the practical difficulties for smaller firms, we are widening the liquid assets definition for firms that apply the simplified ILAS approach. Investments in qualifying money market funds will be acceptable, subject to strict conditions. These are that:

- the funds must offer same-day liquidity to any notification given before 3pm; and
- the investments of the fund should be restricted so that it is only permitted to invest in:
  - o assets themselves eligible for the liquidity buffer; and
  - o sight deposits with credit institutions that are fully secured at all times (including intra-day) by assets themselves eligible for the liquidity buffer.

## Islamic banks

8.21 The FSA takes a 'no obstacles, no special favours' approach to regulating Islamic banks in the UK. By ensuring a level playing field, we are aligned with the Treasury's stated objective of developing London as a European and global centre for Islamic finance.

8.22 We are unwilling to relax our prudential standards for the sake of competitiveness. However, feedback to CP08/22 raised a number of unique practical difficulties for Islamic banks. Over the last six months we have engaged closely with other members of the Tripartite Authorities – and with Islamic banks operating within the UK – to understand the issues our proposals raised and how to address them.

8.23 We have amended the scope of application for our simplified liquidity approach, such that many Islamic banks would now be eligible for the simplified liquidity approach if desired. This will reduce the compliance burden for these banks, without reducing resilience. We have also widened our definition of liquid assets to allow bonds issued by the Islamic Development Bank (IDB) to count towards Islamic banks' liquidity buffers. The IDB is currently the only Multilateral Development Bank globally to issue *sharia*-compliant securities. It recently issued an $850mn dollar-denominated *sukuk* (out of a total programme size of $1.5bn) listed in London. The IDB has announced its intent to issue a sterling bond to support the development of a liquid Islamic banking system in the UK.

## Why government bonds?

### *Firms should bear the cost*

8.24 A tight definition of liquid assets rebalances the cost of liquidity crises towards the private sector in good economic times rather than the public sector in bad economic times. The recent crisis has shown that, although firms had significant portfolios of liquid assets, in practice they could only be discounted at the central bank. The authorities have had to undertake significant liquidity interventions to stabilise the system. At the very minimum this represents an opportunity cost to taxpayers. A liquidity buffer of the highest-quality government bonds would reduce the need for central bank intervention in bad times, but with a cost to firms and their customers in good times. This has a counter-cyclical effect.

### *Price transparency and wrong-way risk*

8.25 For assets to remain liquid in the private markets they must have stable transparent pricing that allows a counterparty to place a reliable value on them and to ascertain the risk of price movements. In addition, the value of the assets must not suffer from wrong-way risk, i.e. the price of the asset should not be correlated with the financial state of the firm, its peers or the financial system generally. Only government bonds readily meet these criteria.

### *Firms move into private repo markets when they experience liquidity shocks*

8.26 When liquidity shocks occur firms face a reduction in unsecured lending from credit-sensitive counterparties and move to secured funding from private markets. During September 2007, the weighted average proportion of the UK banking system's funding generated through repo rose from around 2% to over 14%.

8.27 Most collateral passing through private repo markets is government debt. The ICMA repo market survey of European banks consistently shows that more than 70% of all repo activity is secured on government bonds. The government bond repo markets are deep, liquid and stable. The experiences of the last two years have shown that government bond repo markets are the most reliably active markets.

### *Firms only accept government bonds as collateral*

8.28 A firm's liquidity buffer should be composed of assets that are broadly equivalent to those that other commercial banks would be willing to discount in a crisis.

8.29 Firms generally only accept the highest forms of collateral from their counterparties to cover counterparty credit exposures, in the knowledge that if they were forced to liquidate the collateral it would be at a time of financial market stress associated with a counterparty failure. For example more than 90% of collateral posted pursuant to ISDA master agreements is either cash or government bonds.

### *Government bonds provide incentives for firms to manage liquidity risks*

8.30 A well-designed liquidity framework based on holdings of high-quality government bonds creates a strong financial incentive to manage excessive liquidity risk. Firms will seek to ensure the cost of holding the liquidity buffer is passed on to those customers whose activity is leading to a stressed outflow requirement.

8.31 Accurately pricing this risk will lead to customers changing their behaviour, thereby reducing the level of liquidity risk that firms run. This incentive structure is much weaker and possibly non-existent where there are wider definitions of liquid assets such that firms would be able to profit from their holdings of liquid assets.

8.32 For example, many firms, as they expanded their internal definitions of liquid assets, were able to profit both from taking additional liquidity risk and increasing the buffer of assets held to insure against a stress. This failed to control adequately the level of systemic liquidity risk run by the banking system.

*Central bank facilities may be unavailable to certain firms*

8.33 Respondents who argued for a definition of liquid assets based on all central bank eligible securities assume that central banks will, without condition, discount any eligible asset on demand. This assumption is incorrect.

8.34 Money allocated through open market operations is rationed; firms cannot properly rely on its availability. Secondly, all central banks reserve the right to refuse to transact with a commercial bank. For example, the ECB states that "… the Eurosystem may suspend or exclude counterparties' access to monetary policy instruments on the grounds of prudence." Central banks maintain complete discretion over this decision. A number of central banks have exercised this discretion in the last two years.

*The authorities should have the option of when to intervene*

8.35 Many central banks undertook extraordinary market support during the recent financial crisis, greatly expanding both the quality and quantity of collateral they were prepared to discount and extending the duration for which they provided funds.

8.36 By definition this means central banks took on risks that in normal times they would not accept. Larger buffers of government bonds will reduce the likelihood that in future crises emergency actions of this type will be required.

**Position of the central bank**

The Bank of England believes that appropriate liquid asset buffers are key in protecting individual banks – and the wider financial system – against acute periods of stress. It believes that banks should maintain large buffers of high-quality, unencumbered securities that can reliably be traded or exchanged in private markets, including in stressed circumstances. In many economies, including the UK, this means that the buffer should focus on high-quality government bonds. The Bank of England strongly endorses our policy position in respect of the composition of the liquid assets buffer.

In the Bank of England's view it is particularly important that no automatic link be drawn between eligibility in central bank operations and the definition of the regulatory liquid asset buffer. It believes that a regulatory regime that defined liquid assets as those that were central bank eligible, but were not reliably liquid in private markets, would imply a reliance on central banks as liquidity providers of first resort. Knowing this, the Bank of England is concerned that the incentives for firms to manage their liquidity risk prudently would be reduced, with a commensurate increase in the risk of financial instability.

# 9 Group-wide management of liquidity

## Introduction

9.1 This chapter describes the final Handbook provisions in BIPRU 12.8. Feedback to Consultation Paper (CP) 08/22 questions 56 to 64 covering this subject is contained in the detailed review of feedback (see Chapter 2).

9.2 Experience during the crisis with the failures of certain cross-border groups with operations in the UK has highlighted the need for us to form a view on the soundness of the whole-firm parent's liquidity position and not merely the UK entity's position. Further, we must also engage more closely with home supervisors on reaching a joint understanding on liquidity matters.

9.3 Our proposals in Chapter 7 of CP08/22 sought to establish a robust and consistent process for deciding that in particular cases the risks to our objectives could be mitigated without requiring UK firms and foreign branches in the UK to be self-sufficient. To that effect, we proposed a series of conditions on the applicant firm, its parent and home, or other, supervisor.

9.4 We are proposing no substantive changes to our overall approach. However, following high-level feedback from firms and other regulators, we have simplified our proposals, which should also help to secure increased cooperation and coordination between us and other home supervisors.

## High-level feedback to the consultation

9.5 Responses were generally polarised as to whether we should allow UK firms and foreign branches in the UK to modify the requirement to be self-sufficient. Those supportive, in the case of legal entities, cautioned against 'trapping' liquidity stressing that this could in fact increase the probability of failure, as there would be less intra-group funding available to meet liquidity demands elsewhere in the group.

In the case of branches, they stressed the limitations of branch-only supervision, as the risk of failure of a branch cannot be self-contained, as it depends on the risk of failure of its wider legal entity. Further, calibrating a branch liquidity requirement based solely on a branch's balance sheet would deliver an uncertain level of resilience due to the 'unknown' liquidity risks being run elsewhere in the entity of which the branch is a part.

9.6 Others, however, expressed more reservation, stating that a key lesson from recent events was that firms, generally, held insufficient local liquidity and stressing that holding liquidity locally is the only way of avoiding potential impediments to its transferability intra-group. Such impediments, they said, had been a principal factor in undermining the going concern objective of ensuring that a firm's liabilities in all entities could be met as they fell due, leading to an increase in the probability of failure. Some went even further and suggested that had self-sufficiency requirements been in place before the crisis, intra-group contagion could have been substantially reduced.

9.7 Many respondents were uncertain whether they would in fact be able to apply for a modification, given the preconditions we proposed on the home country regime, namely that it should be equivalent to our own and not prefer its domestic creditors over foreign ones. As regards equivalence, many respondents were also uncertain as to how it would be determined in practice.

9.8 Finally, many branches sought greater clarity about the distinction between *whole-firm liquidity modifications* and *whole-firm liquidity waivers*.

## Reasons for our proposed approach

9.9 While taking due note of respondents' helpful comments on specific aspects of our proposals, we remain of the strong view that our overall approach is appropriate and proportionate and will help us realise our statutory objectives.

9.10 Our new approach to modifying our liquidity requirements incorporates the lessons learnt from our current Global Liquidity Concessions (GLC) regime, where the task of liquidity supervision is normally completely delegated to the home supervisor once its liquidity regime is deemed equivalent. Our experience has taught us that this can often mean the absence of local knowledge of local markets and depositor behaviour in the consolidated liquidity assessment undertaken by the home supervisor.

9.11 By allowing UK firms and foreign branches to modify the requirement to be self-sufficient, subject to adequate ongoing conditions on the firm, its parent and the home supervisor, (which will need to co-operate fully with us), we believe that the risks to our objectives can be mitigated effectively.

## Final policy

### *Supervisory equivalence*

9.12 Respondents suggested that we needed to be clearer about how we would judge equivalence, proposed as a prerequisite for granting a modification. Without more clarity, firms feared they would have to plan for and put in place parallel processes to deliver either the modification or the self-sufficiency outcome, should it turn out that their home country regime be considered non-equivalent. In support of this argument, some respondents also pointed out that an equivalent liquidity regime in and of itself may not necessarily result in a firm's liquidity profile delivering a level of resilience consistent with that delivered by our new regime.

9.13 We agree with these concerns and, therefore, we have decided to move to a position of assessing broad equivalence. The effect of this will mean that we would be willing to consider a modification application from a firm whose home country regime is not considered fully equivalent. In that context, we would consider whether additional conditions in the modification direction would be necessary to bring the firm's liquidity risk profile and management into line with our risk appetite.

9.14 We still, however, consider that there is no substitute for ongoing cooperation between home and host supervisors, underpinned by regular communication and information-sharing, aimed at reaching a common understanding of a firms' liquidity risk position and how it is mitigated. We therefore still believe that such arrangements need to be in place between us and the relevant other supervisors for modifications to be granted.

### *Creditor preference regimes*

9.15 A further condition on the home state proposed in CP08/22 was that it should not have in place any legal requirement that preferred the domestic depositors of a firm over those in the UK. All respondents for which this could be relevant were unclear as to whether the existence of creditor preference arrangements in their country would prohibit them altogether from applying for a modification. Further, they questioned why we were seeking to address this issue in our liquidity policy, as it is at least as relevant to solvency regulation.

9.16 We agree and, therefore, propose removing this condition from the list of considerations, in relation to the assessment of the statutory tests when considering modifications from our liquidity requirements. We will, however, consider in which other areas of our prudential policy framework this issue should be addressed.

### *Whole-firm liquidity modification versus whole-firm liquidity waivers*

9.17 We have decided to give all branches the option of *whole-firm liquidity modifications* only for modifying the self-sufficiency rule, as opposed to the proposal consulted on in CP08/22 that branches also have the option of a *whole-firm liquidity waiver*. This was motivated by the high number of responses that indicated considerable confusion about the difference between the two options. We have determined that through altering the conditions attached to a *whole-firm liquidity modification*, we could achieve a broadly similar outcome to the current GLC regime, where day-to-day supervision is outsourced to the home state. We have, therefore, removed the option of a *whole-firm liquidity waiver*.

## Whole-firm liquidity modification

9.18 A *whole-firm liquidity modification* will be our process for modifying in particular cases the requirement for European Economic Area (EEA) and non-EEA branches to be self-sufficient and replaces our current GLC regime. In addition to modifying the self-sufficiency requirement, such a modification may also allow a branch to rely on other parts of its group to satisfy our BIPRU 12 systems and control requirements. The overall effect of a *whole-firm liquidity modification* will be that a branch will no longer be subject to our quantitative Individual Liquidity Adequacy Standards (ILAS) regime and systems and control requirements, as set out in BIPRU 12.3 – 12.5 of the final rules. In addition, as explained below, our reporting requirements will transfer from the branch to the whole-firm at much reduced frequency and granularity, as set out in Chapter 10 of this Policy Statement (PS).

### *Conditions relating to the whole-firm/parent*

9.19 For a modification to be agreed, the conditions on the whole-firm/parent will remain broadly as they were in CP08/22. However, we have provided more clarity on the frequency and format of the data we expect to receive. We have decided that the format that we are likely to require for such data will be the data items FSA047 and FSA048, as set out in Chapter 10 of this PS, until, as far as EEA firms are concerned, common EEA liquidity reporting has been developed. However, the frequency will be determined on a bank-by-bank basis, depending on the significance of the branch to our statutory objectives; for more significant firms this should be no less than quarterly and for less significant firms no more than annually, with a one calendar month submission time for all.

9.20 Therefore, we expect the cost of reporting to be significantly less for firms with a *whole-firm liquidity modification* than without one, given the reduced reporting frequency, fewer data items and extended submission time. While the level of reporting within the group will also be determined on a case-by-case basis, we expect at a minimum for it to be the legal entity to which the branch belongs, but possibly at a higher level within the group in cases where the liquidity of those entities is materially relevant to the applicant firm.

## Intra-group liquidity modification

9.21 *An intra-group liquidity modification* is our process for granting and maintaining modifications of the self-sufficiency requirement for UK solo entities. Such a modification can result in the overall liquidity adequacy rule being applied at a UK group level creating a self-sufficient ILAS Group (a UK Defined Liquidity Group (DLG) for reporting purposes), and/or to permit an ILAS firm or the ILAS Group to place a degree of reliance on a foreign parent in order to satisfy the overall liquidity adequacy rule, creating a non-UK DLG (Firm level) or a non-UK DLG (DLG level) respectively, for reporting purposes). As with the *whole-firm liquidity modification*, firms that have been granted *an intra-group liquidity modification* will also have the option of relying on other parts of its group to satisfy our SYSC requirements, subject to the group having adequate regard to the liquidity position of the applicant firm.

9.22 However, there are cases where it is unlikely that we would grant a firm an *intra-group liquidity modification*. As a general principle, it is unlikely that firms with material levels of retail deposits would be granted an *intra-group liquidity modification* to rely on a non-UK parent. So, an *intra-group liquidity modification* for such firms would most likely result in a self-sufficient ILAS group. Similarly, firms wishing to rely on non-UK subsidiaries for liquidity support are unlikely to be granted an *intra-group liquidity modification* as we believe there is a strong risk that other host supervisors could wish to maintain the resilience of their local subsidiaries by impeding the flow of liquidity to the rest of the group.

9.23 In all other cases where we will consider an *intra-group liquidity modification* application to rely on a foreign parent, it will, however, only result in a partial switch off of the self-sufficiency requirement, such that, as set out in CP08/22, the UK entity or collection of UK entities (or ILAS group) will have enough liquidity to enable it to wind-down in an orderly manner. However, responses suggested that there was considerable ambiguity as to what this would mean and how this would be calibrated in practice. We have, therefore, clarified in our revised BIPRU 12.8 rules that this will be determined through the ILAS regime, where we will determine how much liquidity we believe such firms should hold and through the *intra-group liquidity modification* process, where we will determine how much of that requirement can be met by holdings of liquidity elsewhere in the group.

9.24 Another difference from a the *whole-firm liquidity modification* is that an *intra-group liquidity modification* will not switch off our reporting requirements for the UK entity, unless the *intra-group liquidity modificatio*n has been granted to a collection of UK entities, thus forming an ILAS group, in which case each of its UK entities will only have to report on an infrequent basis of anywhere between quarterly and annually, depending on the significance of the firm. However, the ILAS group, on which the individual liquidity guidance (ILG) is applied, would still be subject to our normal reporting requirements, as set out in Chapter 10 of this PS.

# 10 Liquidity reporting

## Introduction

10.1 This chapter summarises the design and scope of the final reporting policy, as set out in SUP 16.12. A summary of responses to Consultation Paper (CP) 09/13 questions relating to these provisions is contained in the detailed review of feedback (see Chapter 2).

10.2 The onset of the financial difficulties, which started in July 2007, clearly demonstrated that current regulatory reporting requirements on liquidity did not provide us with the up-to-date information needed to assess properly firms' liquidity positions. It also did not enable us to form sector- and industry-wide views during crisis as well as business-as-usual times. Consequently, in co-operation with major banks we have put in place extensive, *ad hoc* reporting arrangements on a voluntary basis.

10.3 In CP09/13 we therefore proposed to introduce a major reform of liquidity reporting requirements in line with the far-reaching overhaul of the UK liquidity regime. Experience in the ongoing financial crisis have demonstrated that granular, frequent liquidity data in a standardised format and on a contractual (as opposed to behavioural) basis is vital for us to form firm-specific, sector- and market-wide views on liquidity risk. The new liquidity data items are based on, and informed by the far-reaching experience with our *ad hoc* liquidity reporting and resulting business intelligence (BI).

10.4 We have retained the overall thrust of the original regime, making some amendments in the light of feedback received, as discussed further in this chapter.

## High-level feedback to the consultation

10.5 Firms expressed their concern over several elements of the new proposals, especially on the overall cost and burden of the original proposals due to the high level of frequency and granularity of reporting and the tight implementation timetable. Such concerns were acute for smaller firms.

10.6 While we accept that our reporting requirements may be costly to implement for many firms, we also believe that the data concerned would normally be required by most firms for their own purposes in undertaking prudent liquidity risk management. Our new regime, in line with the Basel Committee on Banking Supervision (BCBS) principles, obliges firms to manage and monitor their liquidity risk on a daily, as well as on an intra-day, basis and recent experience has demonstrated the need for firms to track and manage their liquidity positions across the dimensions captured in the CP09/13 proposals.

10.7 Firms also expressed concerns over our ability to make effective use of the large volumes of data that will be reported. We are making a significant investment in our systems and BI capabilities in preparation for the new reporting regime, as discussed further below.

10.8 Finally, while firms were supportive of receiving feedback as part of the supervisory engagement on their liquidity positioning within their peer group, there was resistance to our plans to share liquidity information publicly. This was due to fears over the potentially negative impact on international perception of the UK financial services markets that could be caused by reporting an adverse liquidity developments presented in any published official commentary.

10.9 We will further explore this issue, and weigh the potential benefits and drawbacks. In its annual Financial Risk Outlook the FSA expresses views on all major risks that affect the UK financial services system. It would be impossible to exclude views on liquidity risk from such a document. We will consider, in due course, issuing a separate liquidity risk report, given the importance attributed to this issue domestically and globally.

## FSA capability

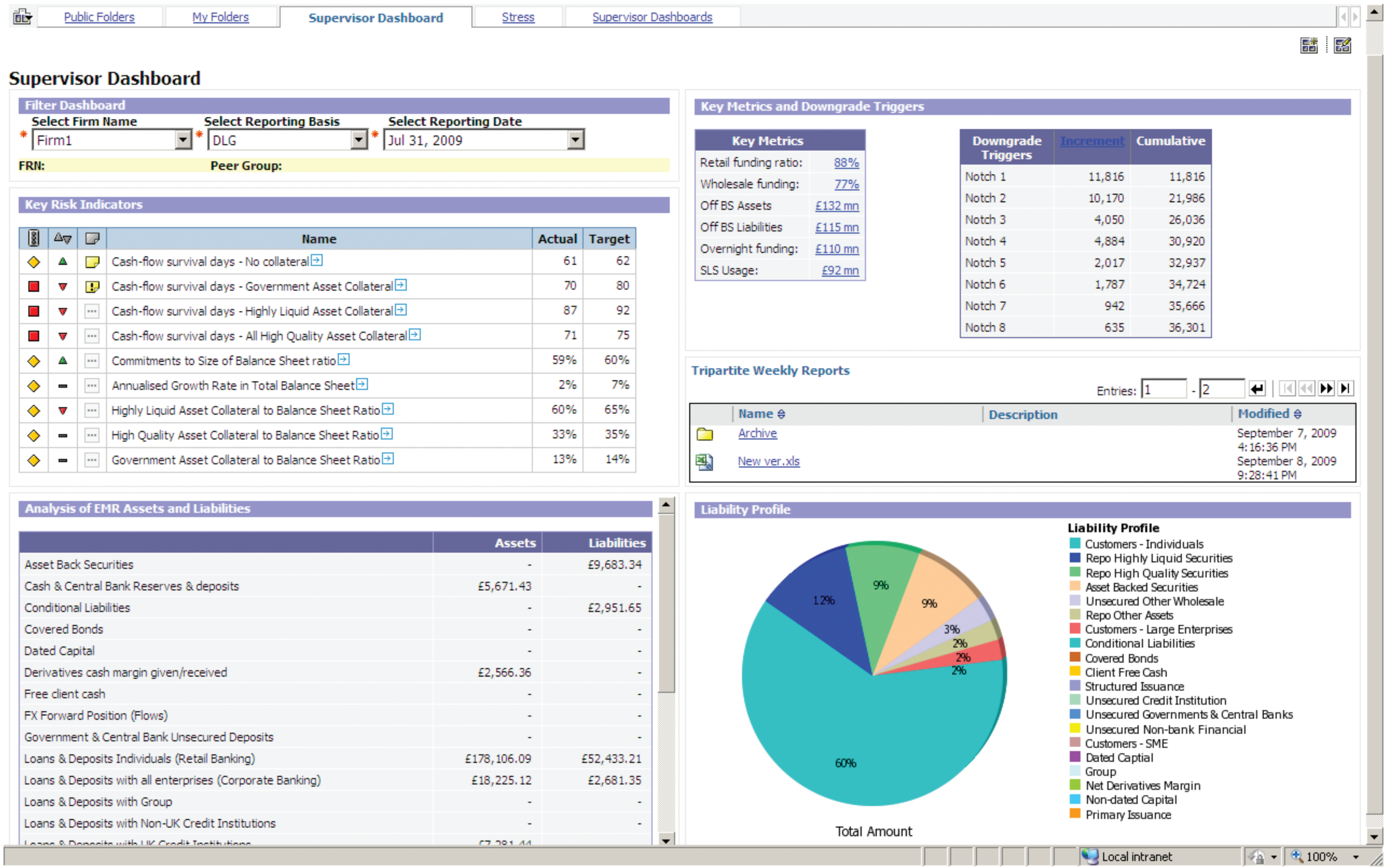
10.10 As we have previously explained, quantitative reporting will not replace qualitative discussions between firms and supervisors. Instead, it will serve as a helpful starting point or background to such discussions, which should enhance their overall quality and usefulness to both sides. Over time, we expect that standardised reporting will help the development of a common language on liquidity, which will further improve both firms' and our understanding of liquidity risk.

10.11 We are investing considerably in our in-house systems and analytical capabilities to ensure that we make effective use of the data we collect. We will be able to conduct peer group analyses, firm-specific and market-wide in-house scenario stress-testing and time-series analyses. This will build on BI tools already developed to analyse the *ad hoc* Liquidity Risk Profile (LRP) reporting, which are used extensively by FSA supervisors, technical specialists and the Bank of England.

10.12 Applying these tools to all data reported will allow us to track firms' liquidity risk profiles against the liquidity risk drivers reflected in our policy and identify outliers quickly, prompting supervisory action when and where appropriate. The standardised data will enable us to challenge a firms' management where we have indentified it as an outlier within its peer group.

10.13 For example, our supervisors will be in a position to apply their own stress testing scenario analysis to the data provided by firm. This can be adjusted by level of outflow and quality of collateral. Changing resilience over time can be assessed, independently, by currency and level of consolidation

10.14 The sample screen shot below illustrates an early prototype BI tool which will be available to FSA supervisors specifically in relation to FSA047 and FSA048 from Q4 of this year to analyse the data collected through the ongoing *ad hoc* reporting project. This is going through rapid development to be ready in time for full roll-out when the reporting requirement come into place in Q2 of next year. We will update our website regularly with new versions of our BI tool:


Public Folders
My Folders
Supervisor Dashboard
Stress
Supervisor Dashboards
Supervisor Dashboard
Filter Dashboard
Select Firm Name
Firm1
Select Reporting Basis
DLG
Select Reporting Date
Jul 31, 2009
FRN:
Peer Group:
Key Risk Indicators
Name
Actual
Target
Cash-flow survival days - No collateral 61 62
Cash-flow survival days - Government Asset Collateral 70 80
Cash-flow survival days - Highly Liquid Asset Collateral 87 92
Cash-flow survival days - All High Quality Asset Collateral 71 75
Commitments to Size of Balance Sheet ratio 59% 60%
Annualised Growth Rate in Total Balance Sheet 2% 7%
Highly Liquid Asset Collateral to Balance Sheet Ratio 60% 65%
High Quality Asset Collateral to Balance Sheet Ratio 33% 35%
Government Asset Collateral to Balance Sheet Ratio 13% 14%
Analysis of EMR Assets and Liabilities
Assets
Liabilities
Asset Back Securities - £9,683.34
Cash & Central Bank Reserves & deposits £5,671.43 -
Conditional Liabilities - £2,951.65
Covered Bonds - -
Dated Capital - -
Derivatives cash margin given/received £2,566.36 -
Free client cash - -
FX Forward Position (Flows) - -
Government & Central Bank Unsecured Deposits - -
Loans & Deposits Individuals (Retail Banking) £178,106.09 £52,433.21
Loans & Deposits with all enterprises (Corporate Banking) £18,225.12 £2,681.35
Loans & Deposits with Group - -
Loans & Deposits with Non-UK Credit Institutions - -
Key Metrics and Downgrade Triggers
Key Metrics
Retail funding ratio: 88%
Wholesale funding: 77%
Off BS Assets £132 mn
Off BS Liabilities £115 mn
Overnight funding: £110 mn
SLS Usage: £92 mn
Downgrade Triggers
Increment
Cumulative
Notch 1 11,816 11,816
Notch 2 10,170 21,986
Notch 3 4,050 26,036
Notch 4 4,884 30,920
Notch 5 2,017 32,937
Notch 6 1,787 34,724
Notch 7 942 35,666
Notch 8 635 36,301
Tripartite Weekly Reports
Entries: 1 - 2
Name
Description
Modified
Archive September 7, 2009 4:16:36 PM
New ver.xls September 8, 2009 9:28:41 PM
Liability Profile
12%
9%
9%
3%
2%
2%
2%
60%
Total Amount
Liability Profile
Customers - Individuals
Repo Highly Liquid Securities
Repo High Quality Securities
Asset Backed Securities
Unsecured Other Wholesale
Repo Other Assets
Customers - Large Enterprises
Conditional Liabilities
Covered Bonds
Client Free Cash
Structured Issuance
Unsecured Credit Institution
Unsecured Governments & Central Banks
Unsecured Non-bank Financial
Customers - SME
Dated Captial
Group
Net Derivatives Margin
Non-dated Capital
Primary Issuance
Local intranet
100%

## Key changes since CP09/13

10.15 We have revisited certain aspects of our proposals, based on feedback received on CP08/22 and CP09/13, as well as continuing internal analysis. Our amended requirements will enable us to deliver the same outputs to FSA supervisors and other stakeholders, while substantially reducing the overall volumes of data collected compared with the CP09/13 proposals This has been achieved by:

- revising reporting frequencies;
- extending submission deadlines;
- extending the scope of the simplified, low-frequency reporting (in addition to the extension of the scope of the simplified quantitative regime);
- revisiting our proposals on currency reporting;
- revisiting our proposals on the legal entity basis for reporting;
- clarifying our reporting requirements in the context of modifications; and
- clarifying our transitional timetable for reporting, taking into account the modifications process.

10.16 The CP09/13 proposals themselves already included amendments to the outline proposals discussed in CP08/22. These included longer submission deadlines, less onerous currency reporting requirements and the deletion of an intra-day data item. We have further assessed the CP09/13 proposals on the basis of feedback received on proportionality and our data needs and made changes, as summarised in the table below:

| | **CP09/13** | **Final policy** |
|---|---|---|
| Consolidation levels of reporting | All reporting requirements apply in full across all three levels of consolidation (solo, UK group, Defined Liquidity Group (DLG)) | Reporting requirements apply in full only to one, at most two levels of consolidation, aligning it more closely with issuance of Individual Liquidity Guidance (ILG) – details below |
| Number of data items | CP09/13 reduced the data items proposed in CP08/22 by one | FSA049 dropped as simplified firms report FSA047 and FSA048 |
| Reporting frequencies – standard ILAS firms | All levels of consolidation subject to the same reporting frequency | Non-ILG levels of consolidation have reduced reporting frequencies for FSA047 and FSA048 and need report only those data items |
| Reporting frequencies – simplified ILAS firms | Monthly reporting of FSA047 and FSA048 in business-as-usual switches to daily in stressed times | Monthly reporting of FSA047 and FSA048 in business-as-usual switches to weekly in stressed times |
| Scope of simplified reporting regime | Simplified reporting only available to firms that are subject to the simplified ILAS regime[14] | Extension of the simplified reporting regime to capture ILAS BIPRU firms with a balance sheet of < £1bn |
| Submission deadlines – FSA047, FSA 048 and FSA052 | CP09/13 extended submission deadlines of weekly (daily) data items to T+1, from T, as proposed in CP08/22 | Further extension of submission deadline for FSA052 to T+2 |
| Submission deadlines – all other data items | CP09/13 proposed submission deadlines of three business days for monthly and quarterly data items | Monthly and quarterly data items have submission deadlines of 15 business days |
| Currency reporting | Where relevant, currency reporting would be required at all levels of consolidation | Currency reporting will only be required where firms report FSA047 and FSA048 more frequently than quarterly |
| Waivers/modifications and reporting | Full reporting requirements apply to the DLG when it is defined through a modification | If the DLG by modification includes UK and non-UK firms, full reporting requirements will only apply to the UK part of the DLG. The whole DLG, including non-UK members, will submit only FSA047 and FSA048, quarterly at most, with a one-month submission deadline. |

14 The scope of the simplified regime itself is widened in the final policy, as outlined in Chapter 7.

### *Transitional provisions*

10.17 In addition, CP09/13 suggested a Q1 2010 switch-on for the full quantitative reporting requirements. However, CP09/14 on transitional arrangements signalled that, the implementation timetable for quantitative reporting requirements would be phased according to category of firm. Firms widely welcomed this development; in our final policy, transitional provisions are further extended.

10.18 As outlined in Chapter 11, reporting requirements will begin for sterling stock banks and standard ILAS building societies on 1 June 2010; for mismatch banks and banks and building societies which will be simplified ILAS BIPRU firms on 1 October 2010; and for investment firms and branches, including those which will be simplified ILAS BIPRU firms, on 1 November 2010. Firms that become an ILAS BIPRU firm or a simplified ILAS BIPRU firm on or after 1 December 2009 will start reporting FSA047 and FSA048 immediately, within the framework of the extended *ad hoc* LRP reporting project.

10.19 Firms which currently report the LRP on a voluntary best-efforts basis will be asked to continue to do so until the new reporting requirements come into effect.

## Final policy

### *Key features of the new reporting regime*

10.20 We have not departed markedly from the fundamentals of our original reporting proposals, as discussed in CP09/13. This is because they were originally developed and have been continuously improved based on the invaluable experiences gathered during a real liquidity crisis. The key features of the new regime remain as follows (see Annex 2 for detailed requirements for each type of reporting firm):

- granular reporting requirements which capture our ILAS liquidity risk drivers across the full maturity spectrum;
- standardised data items collected on a contractual basis to allow for peer comparisons;
- appropriately high reporting frequencies, which step up in times of stress;
- currency reporting for those firms with material liquidity risk in multiple currencies; and
- several levels of reporting, reflecting liquidity flows within a firm or group or firms.

### *Scope*

10.21 Our quantitative reporting requirements will apply to all Individual Liquidity Adequacy Standards (ILAS) firms, at a frequency varied according to whether the firm is a standard or low frequency reporting firm, and whether it has been granted a modification, as outlined in Chapter 9. Any such modification may affect the legal entity basis for reporting, as discussed further below. Low-frequency reporting firms, as defined in SUP16.12 are firms which fall within the scope of our standardised buffer ratio regime (see Chapter 7) or which have balance sheets less than £1bn.

10.22 Firms which fall outside the scope of the ILAS requirement of the new liquidity regime – that is limited licence and limited activity BIPRU investment firms, as well as certain firms described in Chapter 12 – will not be subject to our quantitative reporting requirements. Instead, their annual completion of a systems and controls questionnaire (FSA055) will enable us to monitor their compliance with our qualitative rules and guidance.

### *Data items and frequency*

10.23 The final rules reflect feedback we have received on reporting frequencies, submission deadlines and the perceived burden of the reporting requirements on smaller firms. We have also incorporated helpful technical feedback on the details of the proposed data items. The tables in Annex 2 summarise the data items, reporting frequencies and submission deadlines for the different categories of firms.

### *Currency reporting*

10.24 As proposed in CP09/13, we will require firms to submit FSA047 and FSA048, on a default basis, as a consolidated currency report. As part of firms' Individual Liquidity Adequacy Assessments (ILAAs), we will assess relevant firms' cross-currency liquidity risk exposures and will agree with them bilaterally which additional currencies they should report, if any. At most, firms will submit the data items in three material currencies, in addition to the consolidated report.

10.25 Preliminary analysis based on the submission of FSA054 by 219 firms, indicated that roughly 20 firms will be expected to report all three material currencies, plus the consolidated report; a further 71 will report two material currencies in addition to the consolidated report. All other firms will not be subject to currency reporting, unless there is a significant shift in their cross-currency liquidity risk exposures, which will be monitored via FSA054.

*Consolidation levels of reporting*

10.26 CP09/13 proposed that the reporting requirements apply in full to each individual ILAS firm separately on each of the following levels of consolidation (where applicable):

- solo basis;
- UK consolidation group, if a UK ILAS firm is a member is such a group; and
- Defined Liquidity Group (DLG)
  - o *by modification*: where a firm has a modification, the DLG includes each entity on whose liquidity support we permit the firm to rely for the purpose of meeting the overall liquidity adequacy rule; and
  - o *by default*: the DLG includes each entity which is a member of the firm's group and (i) provides or is committed to provide material support to the firm against liquidity risk; (ii) the firm provides or is committed to provide material support to that entity against liquidity risk; or (iii) that entity has reasonable grounds to believe that the firm would supply such support, and *vice versa*.

10.27 We have since revisited these proposals and amended them such that they will allow us to capture liquidity risk better within the UK, as well as in respect of ILG set at group level where applicable. We have also reviewed the requirements on frequency and granularity and have considerably reduced the overall reporting burden by applying the reporting regime in full only to the consolidation level of reporting that is relevant for ILG purposes.

10.28 The final regime therefore requires firms to report at the following levels of consolidation:

- solo basis;
- DLG by modification – UK DLG or non-UK DLG;
  - – *UK DLG*: A DLG whose only members are ILAS firms;
  - – *Non-UK DLG(Firm or DLG)*: Any-other type of DLG as it relates to the firm or the UK DLG created by the modification;
- DLG by default (same definition as in paragraph 10.26 above). In practice, the scope of the DLG by default will be agreed initially between firms and the FSA.

10.29 Firms or DLGs that are below the £50mn threshold for total assets minus called up share capital, minority interests and reserves are excluded from the new quantitative reporting requirements and only have to complete a systems and controls questionnaire (FSA055).

10.30 As noted in CP09/13, as part of our continuous relationship with specific types of firms we may also ask firms to submit to us solo returns from non-UK-regulated entities, if they are relevant from a liquidity risk management perspective.

10.31 Two key factors will drive the structure of a firm's consolidation level of reporting, and related frequencies and granularity, are:

- whether it has been granted a modification; and
- whether the FSA is the lead regulator.

10.32 *Lead regulation* encompasses firms that (i) either are not subject to consolidated supervision by anyone; or (ii) are subject to consolidated supervision under BIPRU and the group that is subject to consolidated supervision under BIPRU does not form part of a wider EEA consolidation group or third country consolidation group. When deciding whether a firm is non-UK-lead-regulated it makes no difference whether its group is or is not subject to equivalent supervision.

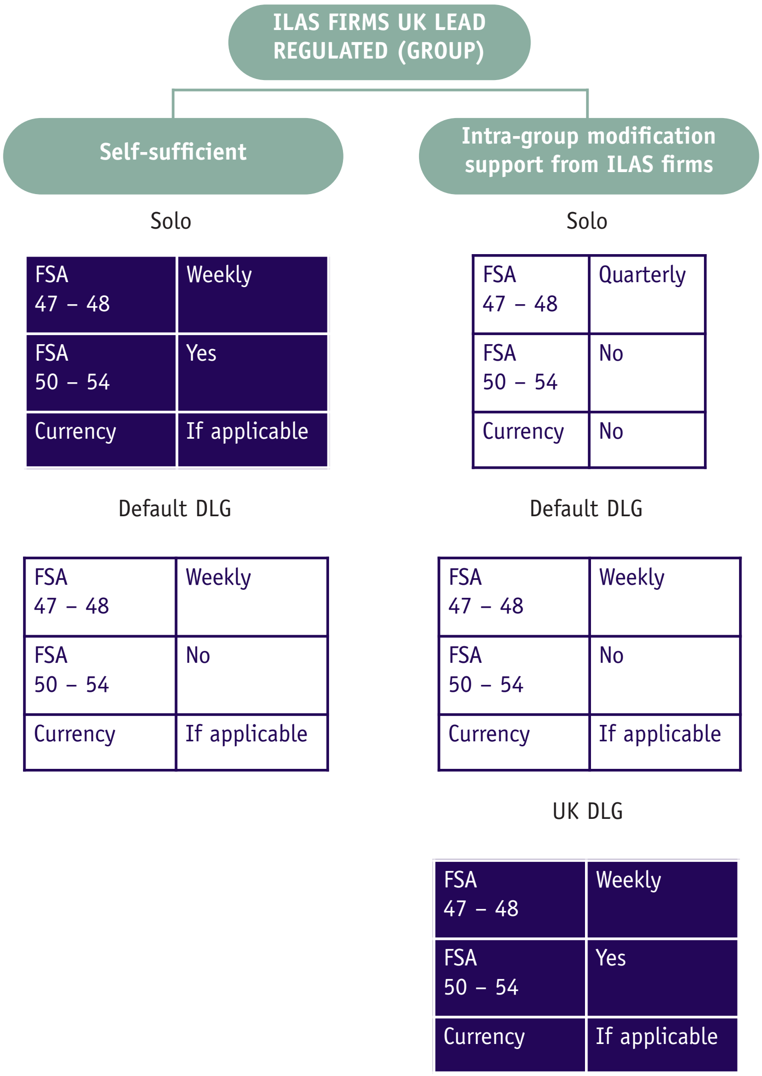
**A. No modification, UK-lead regulated:**

10.33 Firms which are lead-regulated by us and do not have an intra-group liquidity modification will report on a solo and DLG by default basis. The reporting requirements apply in full on the solo basis, including currency reporting where appropriate. At the DLG by default level only FSA047 and FSA048 are required weekly/daily for a standard-frequency firm or monthly/weekly for low-frequency firms.

**B. Modification, UK-lead regulated**

10.34 A firm that is UK-lead regulated and has a UK DLG by modification, reports (i) solo, (ii) UK DLG; and (iii) DLG by default. The full reporting requirements only apply at the UK DLG level. At the solo level only FSA047 and FSA048 are required quarterly (both standard-frequency and low-frequency firms). At the level of the DLG by default only data items FSA047 and FSA048 are required weekly/daily for a standard-frequency firm or monthly/weekly for low-frequency firms.

10.35 The figure below demonstrates the regime as it applies to these consolidation levels for reporting. The darkly shaded boxes indicate the level at which ILG is set:




### C. No modification, non-UK-lead regulated:

10.36 There is no DLG reporting at all. The only reporting is at the solo level, where the full reporting requirements apply.

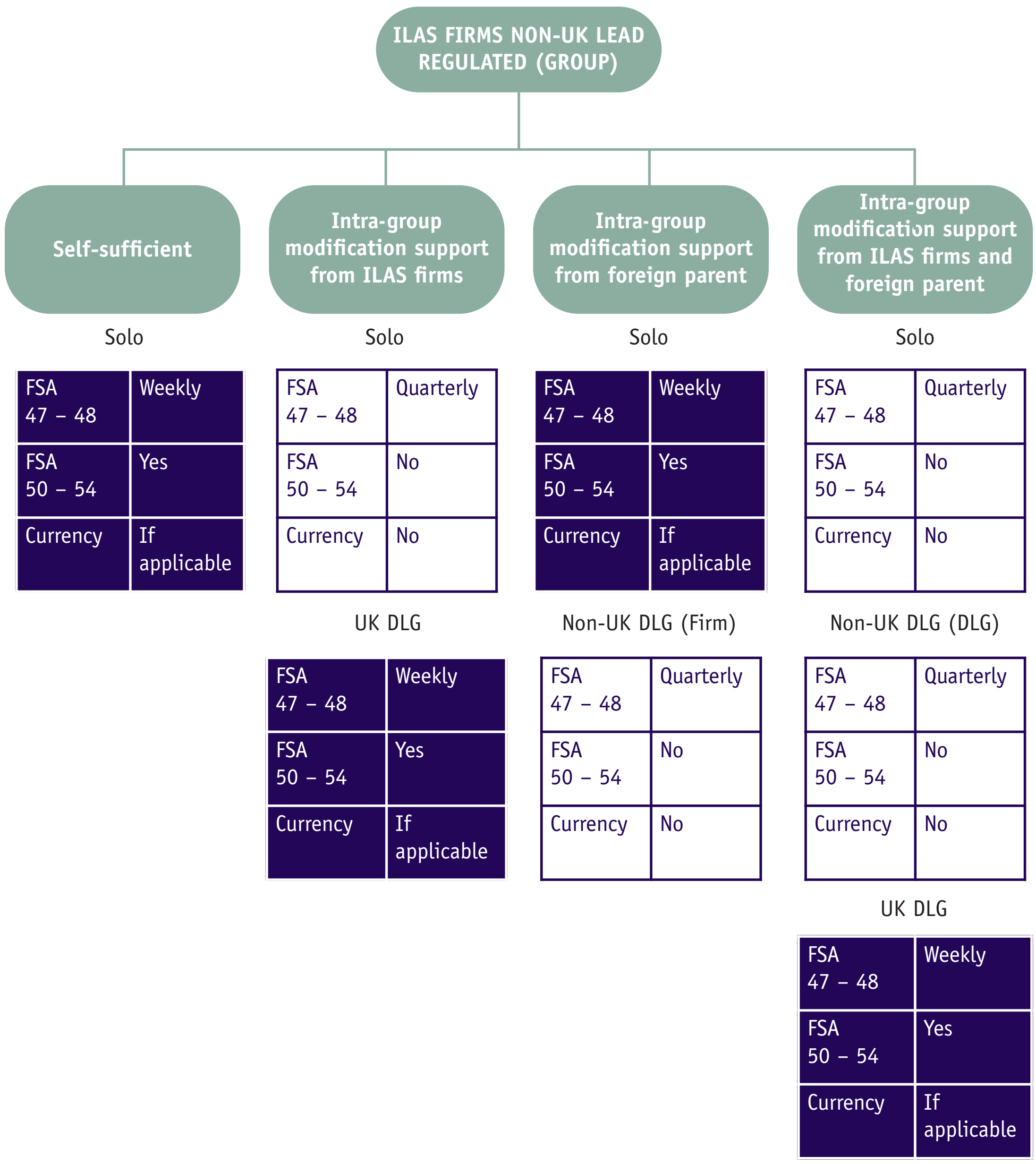
### D. Modification, non-UK-lead regulated

10.37 A firm that is not UK-lead regulated and only has a UK DLG by modification (i.e. the scope of its modification does not include any foreign entities), reports solo and UK DLG. The full reporting requirements apply only at the level of the UK DLG. At the solo level, it reports only FSA047 and FSA048 quarterly (both standard-frequency and low-frequency firms).

10.38 A firm that is not UK-lead regulated and only has a non-UK DLG (Firm) by modification (i.e. the scope of its modification includes only foreign entities) reports solo and non-UK DLG (Firm level). The full reporting requirements apply only to the solo level. At the level of the non-UK DLG (Firm level), only FSA047 and FSA048 as required quarterly (both standard-frequency and low-frequency firms).

10.39 A firm that is not UK-lead regulated, has an UK DLG by modification and also has a non-UK DLG (DLG level) by modification (i.e. the scope of its modification includes both a group of ILAS firms as well as foreign entities on which they are allowed to rely) reports (i) solo; (ii) UK DLG; and (iii) non-UK (DLG level). The full reporting requirements only apply at the level of the UK DLG. At the solo level and at the level of the non-UK DLG (DLG) only FSA047 and FSA048 are required quarterly (both standard-frequency and low-frequency firms).

10.40 The figure below demonstrates the regime as it applies to these consolidation levels for reporting. The darkly shaded boxes indicate the level at which ILG is set:

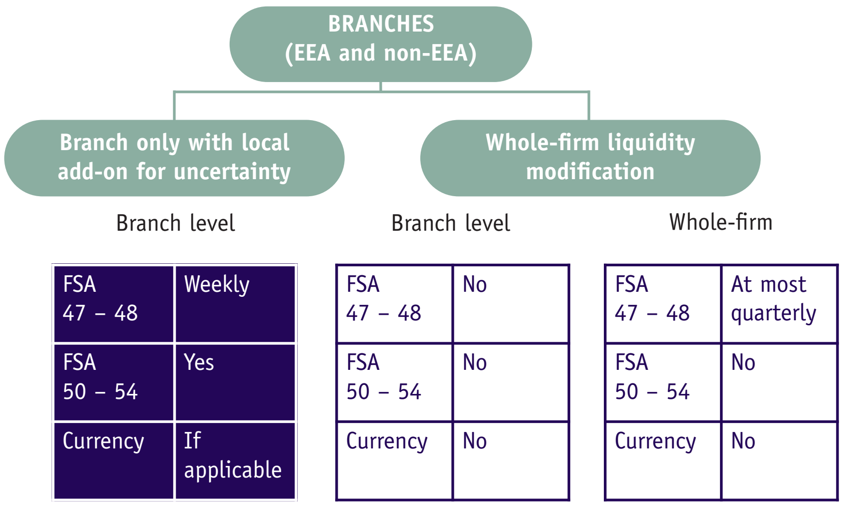


## *Branch reporting*

10.41 For a branch, the default position, in absence of a whole-firm liquidity modification remains that it will report all the data items on a solo basis, based on UK branch operations.

10.42 Where a branch has been granted a whole-firm liquidity modification, we will require it to report only FSA047 and FSA048 on a whole-firm basis, at most quarterly. There will be no branch-level reporting and no currency reporting. Reporting frequency and level of consolidation to define 'whole-firm' will be considered as part of the process of granting the waiver.

10.43 The figure below demonstrates the regime as it applies to this consolidation levels for reporting. The darkly shaded box indicates the level at which ILG is set:




## *Reporting for simpler firms*

10.44 Respondents to CP09/13 voiced strong concerns about the perceived disproportionate and onerous reporting burden on smaller firms. In particular, the move from monthly reporting of the key data item under business-as-usual to daily in stressed times was considered especially onerous. Instead, it was suggested that we collect only headline data daily during a crisis, to reduce the burden on smaller firms.

10.45 We have made three changes to the final rules to address these concerns. We have:

- extended the overall scope of the simplified regime, including reduced frequency reporting, to a wider population of firms;
- introduced a *de minimis* balance sheet threshold of £1bn in SUP16, below which all firms automatically fall within the category of low-frequency reporting firms (as discussed in paragraph 10.22 above); and
- reduced the stressed time reporting frequency for low-frequency reporters from daily to weekly.

10.46 We still believe that it is important to collect liquidity in a standardised format that applies to all firms, so that we can apply effectively the analytical tools we are building in preparation for the new reporting regime. However, the concessions outlined above should considerably reduce the reporting burden on smaller firms. Moreover, the complexity of the reports increases with the complexity of the business models of the completing firms. Many smaller, simpler firms will only need to complete relatively small portions of the key data items.

10.47 Another significant change is that we have dropped data item FSA049, which was the Enhanced Mismatch Report (EMR) for simpler firms and did not include daily flows. Instead, all ILAS firms – standard and simple – will report FSA047 and FSA048. This is because we need to collect daily flows from simplified firms to monitor their compliance with our standardised buffer ratio. Since firms will have to conduct this analysis for the same purpose, the cost of submitting this data to us should be minimal.

## Next steps

10.48 We are planning seminars, workshops, conferences and other training/communication strategies, some of which will focus particularly on reporting. We will take this as an opportunity to allay industry concerns about our ability to process and use effectively the data we are planning to collect. Internally, our reporting training module to ensure that our supervisors will be equipped to get the most out of the data we are collecting and the resulting BI.

10.49 Internationally, we are promoting standardised, contractual liquidity reporting, which we believe to be invaluable to the supervision of internationally active firms as well as crisis management. Discussions are ongoing on the European and international level.

# 11 Liquidity transitional measures

## Introduction

11.1 This chapter summarises our final policy for the liquidity transitional measures as contained in the Transitional Provisions in BIPRU TP 26 – 30.

11.2 In Consultation Paper (CP) 09/14,[15] we set out proposed transitional measures, relating to phased switch-on of various elements of the new liquidity regime. The consultation period for CP09/14 closed on 31 July 2009. A summary of responses is included in the detailed review of feedback (see Chapter 2).

11.3 Our final policy for transitional measures is essentially the same as that consulted on in CP09/14 and provides a simple phased implementation plan for the new liquidity regime. The main changes to the CP09/14 proposals are to defer further the switch-on dates for the quantitative and regulatory reporting elements. We have also amended the transitional measure for mismatch banks[16] to provide a specific date when the BIPRU12 quantitative requirements will be switched-on for these firms.

11.4 This chapter does not discuss the timing of provisions of Individual Liquidity Guidance (ILG). For that topic, see paragraphs 1.15 to 1.19 of this Policy Statement (PS).

## High-level feedback to the consultation

11.5 Respondents were generally supportive of the concept of a phased implementation. Some respondents said the timelines consulted on in CP09/14 were achievable. Others said the requirements should be deferred for a longer period.

11.6 Respondents said that the final features of the regime, combined with whether a firm was granted a modification, would be an important element in determining the regulatory requirements that would apply to a firm and hence the nature and design of the systems that would be required to achieve compliance.

15 CP09/14 *Strengthening liquidity standards 3: Liquidity transitional measures.*

16 A firm which calculates its liquidity resources in accordance with Chapter LM of IPRU(BANK) and which is not an incoming EEA firm or a third country BIPRU firm (and which does not hold a simplified ILAS waiver).

11.7 Respondents requested more information about the process and requirements for the modifications available under the new regime. Respondents asked for a clear timeline that set out when firms would be able to submit their applications and be notified of the FSA's decision so that firms would be able to plan and prepare for the new regime knowing which requirements would apply. Respondents asked what would happen if the modifications they applied for were not granted.

11.8 Several respondents included comments on the detail of the regime as consulted on in CP08/22 and CP09/13. The feedback and our consideration of the points raised are included within the relevant chapters and in the detailed review of feedback (see Chapter 2).

## Our final policy

### *Phased implementation*

11.9 In CP08/22 we said that we did not expect to provide transitional measures for the new liquidity regime. However, following feedback in response to our proposals and further internal consideration, in CP09/14 we revised our position.

11.10 The general approach decided for liquidity transitional measures is essentially the same as that proposed in CP09/14. Our final policy continues to provide a simple phased implementation plan for the various elements of our new liquidity regime (systems and control requirements, quantitative requirements, and regulatory reporting requirements), which is differentiated by class of firm.

11.11 The liquidity transitional measures (BIPRU TP 26 – 30) are available to firms that are within the scope of the new liquidity regime and which were authorised before 1 December 2009.

### *Systems and control requirements*

11.12 In CP08/22 and CP09/14, we said that we did not intend to provide a transitional measure for the systems and control element of our new regime and that the new requirements should be switched-on at the start of the regime at 1 December 2009.

11.13 Some respondents agreed with the CP09/14 proposal that the systems and control requirements should be switched on in late 2009. Other respondents said the requirements should be deferred until January 2010 or until 2011. Some also suggested that the BIPRU 12 requirements were more onerous than the current requirements contained in FSA's Handbook at SYSC 11. Not all respondents shared this view. Some respondents (investment firms) questioned the relevance and proportionality of the BIPRU 12 systems and control requirements given the nature, scale and complexity of their firms.

11.14 As discussed in Chapter 5 of this PS, we continue to see robust systems and controls as essential to effective liquidity risk management. Liquidity risk management is particularly important for banks, although there is potential liquidity risk of some degree present in all financial institutions. We have applied BIPRU 12.3 and 12.4 to all firms that need to mitigate liquidity risk. Chapter 5 also discusses the issue of proportionality and this includes that the liquidity risk arrangements of a firm must be proportionate to the nature, scale and complexity of a firm's activities. Chapter 12 of this PS summarises the final liquidity policy as it applies to investment firms.

11.15 Our final policy position is to switch on the BIPRU 12 systems and control requirements at 1 December 2009 for all firms within the scope of the new liquidity regime.

11.16 Exceptionally, we have provided a transitional measure for UK branches of overseas banks with a Global Liquidity Concession[17] (Branches with a GLC) in place as at 30 November 2009. As a result, these firms will not be required to apply the BIPRU 12 systems and control requirements until 1 November 2010. We will maintain appropriate oversight of branches' liquidity position in liaison with home supervisors.

11.17 In feedback to CP09/14, some respondents disagreed with this proposal. They said it was unfair and illogical and that the same transitional measure should be provided to all UK branches of overseas banks whether or not they had a GLC. On practical grounds, however, we continue to see the transitional measure as appropriate to branches with a GLC as without it, these firms would face becoming subject to all elements of the liquidity regime (including the self-sufficiency requirement) from commencement of the new liquidity regime at 1 December 2009. This would require them to have modifications under BIPRU 12.8 to be in place at 1 December 2009. No other class of firm (other than firms authorised on or after 1 December 2009) would be affected in that way.

11.18 In feedback to CP09/14, some respondents asked how the intra-group liquidity modifications provided by BIPRU 12.8 would interact with the BIPRU 12.3 and 12.4 systems and control requirements during the transitional period for quantitative requirements. Firms should note that during the transitional period provided by BIPRU TP 26, the BIPRU 12 quantitative requirements, which include the BIPRU 12.8 measures, are switched off for relevant firms.

17 A Global Liquidity Concession (GLC) is available under IPRU BANK Chapter LM. A GLC is not available under BIPRU 12.

11.19 This table provides a summary of the finalised switch-on dates for BIPRU 12.3 and 12.4 systems and control requirements:

| Class of firm | Current requirements | New requirements |
|---|---|---|
| Individual Liquidity Adequacy Standards (ILAS) BIPRU firms | | |
| Sterling stock bank[18]<br>Building society[19]<br>Mismatch bank[20]<br>Branch without a GLC[21]<br>Full-scope BIPRU investment firm which is also an ILAS BIPRU firm | SYSC 11 continues to apply until 30 November 2009 | BIPRU 12.3 and 12.4 apply from 1 December 2009 |
| Branch with GLC[22] | — | BIPRU 12.3 and 12.4 apply from 1 November 2010 |
| Non-ILAS BIPRU firms | | |
| Exempt full-scope BIPRU investment firm<br>Limited licence BIPRU investment firm<br>Limited activity BIPRU investment firm | SYSC 11 continues to apply until 30 November 2009 | BIPRU 12.3 and 12.4 apply from 1 December 2009 |
| Firms becoming an ILAS BIPRU firm or non-ILAS BIPRU firm on or after 1 December 2009 | | |
| ILAS BIPRU firms<br>Non-ILAS BIPRU firms | Not applicable | BIPRU 12.3 and 12.4 apply from the date the firm becomes an ILAS BIPRU firm or non-ILAS BIPRU firm. |

### *Quantitative requirements*

11.20 In CP09/14 we proposed a number of transitional measures to assist firms as they move to the new liquidity regime. The transitional measures defer the switch-on of the BIPRU 12 quantitative elements; the deferral varies by class of firm. We also consulted on providing a scalar to simplified ILAS BIPRU firms under the new liquidity regime.

11.21 Our final policy for the liquidity transitional measures for the quantitative element of the new liquidity regime is essentially the same as that consulted on in CP09/14 and provides a simple phased implementation plan.

11.22 The main changes to the CP09/14 proposals are to defer further the switch-on dates for the quantitative and regulatory reporting elements of the new liquidity regime from those consulted on in CP09/14. This will provide more time for firms to prepare for the regime.

18 Sterling stock bank: A firm which calculates its liquidity resources in line with Chapter LS of IPRU(BANK).

19 Building society: A firm which as at 30 November 2009 calculates its liquidity resources in accordance with IPRU(BSOC).

20 Mismatch bank: A firm which as at 30 November 2009 calculates its liquidity resources in line with Chapter LM of IPRU(BANK) and which is not an incoming EEA firm or a third country BIPRU firm.

21 Branch without a GLC: a firm which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of IPRU(BANK) and which is an incoming EEA firm or a third country BIPRU firm.

22 Branch with a GLC: An incoming EEA firm or a third country BIPRU firm which as at 30 November 2009 has a Global Liquidity Concession.

11.23 The new BIPRU 12 liquidity regime is to start on 1 December 2009 and at that date the transitional provisions (BIPRU TP26 to 30) take effect and switch-off the BIPRU 12 quantitative requirements for a defined period of time for those firms that qualify for the liquidity transitional measures.

11.24 During the transitional period[23], the quantitative requirements for ILAS BIPRU firms (BIPRU 12.2 and BIPRU 12.5 to 12.9) and non-ILAS BIPRU firms (BIPRU 12.2 and 12.8) will not apply to firms qualifying for the transitional. Instead, firms will remain subject to their current quantitative liquidity requirements during the transitional period that applies to them. Additionally, the overall liquidity adequacy rule (BIPRU 12.2.1R), which includes the self-sufficiency requirement, will not apply during the transitional period. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply. When a firm's transitional period finishes, the BIPRU 12 quantitative requirements, which include the self-sufficiency requirement, will apply to a firm.

11.25 This table sets out the transitional period and switch-on date for the BIPRU 12 quantitative requirements by class of firm.

| **Class of firm** | **Transitional period**<br>BIPRU 12 quantitative requirements switched-off | **BIPRU 12 quantitative requirements switch-on** |
|---|---|---|
| ILAS BIPRU firms | | |
| Sterling stock bank<br>Building society (which will not be a simplified ILAS BIPRU firm) | 1 December 2009 until 31 May 2010 | 1 June 2010 |
| Building society (which will be a simplified ILAS BIPRU firm) | 1 December 2009 until 30 September 2010 | 1 October 2010 |
| Mismatch banks (including those firms which will be a simplified ILAS BIPRU firm) | 1 December 2009 until 30 September 2010 | 1 October 2010 |
| Branch without a GLC<br>Branch with GLC<br>Full-scope BIPRU investment firm which is also an ILAS BIPRU firm (including firms which will be a simplified ILAS BIPRU firm) | 1 December 2009 until 31 October 2010 | 1 November 2010 |
| Non-ILAS BIPRU firms | | |
| Exempt full-scope BIPRU investment firm<br>Limited licence BIPRU investment firm<br>Limited activity BIPRU investment firm | BIPRU 12.2 and 12.8<br>1 December 2009 until 31 October 2010 | 1 November 2010 |

23 BIPRU TP 26

11.26 In CP09/14, we consulted on providing a liquidity assets buffer scalar to firms that adopt the simplified ILAS. Respondents to CP09/14 supported the proposal, though they queried the requirements for the buffer itself. Our final policy continues to be that a scalar will be provided to firms that qualify for simplified ILAS.[24] Chapter 7 of this PS explains that we have widened the eligibility criteria for simplified ILAS and that any firm wishing to use the simplified ILAS must obtain permission via the waiver process outlined in that chapter. The effect of the scalar is that a firm will have three years within which to build up its liquid assets buffer from the beginning of the relevant period.[25]

11.27 In CP09/14 we proposed that the BIPRU 12 quantitative requirements for mismatch banks that will adopt the standard ILAS regime would switch-on once a firm had been issued with Individual Liquidity Guidance (ILG). It was proposed that the migration would take place over a one-year period. Respondents to CP09/14 supported the concept of deferring the switch-on of the BIPRU 12 quantitative requirements.

11.28 Our final policy position, taking note of feedback from respondents to CP09/14 that they wanted a clear timeline, is to switch-on the BIPRU 12 quantitative requirements on 1 October 2010 for mismatch banks.[26] This provides a clear date from which the BIPRU 12 quantitative requirements apply to these firms and should assist firms in their planning. Additionally, the transitional measure requires a firm to maintain a 'liquidity floor' in the period from 1 October 2010 until such time as ILG is issued to the firm (ILG to be issued by 30 November 2011 at the latest). The effect of the 'liquidity floor' will be that a firm must maintain its liquidity resources such that they are the higher of the amount it assesses as adequate in its Individual Liquidity Adequacy Assessment (ILAA) and the amount it would have maintained in accordance with Chapter LM of IPRU (BANK). Once ILG has been issued to a firm it will calculate its buffer by reference to the BIPRU12 quantitative requirements.

11.29 In CP09/14 we suggested that non-ILAS BIPRU firms will not require an extensive set of quantitative transitional measures and this is our final policy position, even though the range of firms identified as non-ILAS BIPRU firms has been expanded. During the transitional period[27] 1 December 2009 until 31 October 2010, the new quantitative requirements (BIPRU 12.2 and 12.8) will not apply to these firms. Instead, they will remain subject to their current quantitative liquidity requirements. The adequate financial resources rule (GENPRU 1.2.26R) will apply during the transitional period instead of the BIPRU 12 overall liquidity rule. From 1 November 2010, the BIPRU 12 quantitative requirements, including the overall liquidity adequacy rule will apply to these firms.

24 BIPRU TP 29

25 BIPRU TP30 also provides that firms authorised on or after 1 December 2009 and which are a simplified ILAS BIPRU firm may be given permission to use the scalar. This would be assessed via FSA's waiver application process.

26 BIPRU TP 30 would also apply to a Branch without a GLC .

27 Provided by BIPRU TP 26.

11.30 As noted in CP09/14, the FSA will continue to retain the ability to issue guidance to firms that qualify for the liquidity transitional measures as part of normal supervisory engagement. Where deemed appropriate, we will be able to issue guidance to a particular firm before the BIPRU12 quantitative requirements come into effect.

11.31 In CP09/14 we said that the liquidity transitional measures would only be available to firms authorised before 1 December 2009. This continues to be our view. As noted above, these firms will be subject to the BIPRU 12 requirements from 1 December 2009, or date of authorisation if later. However, we are willing to consider applications from firms that will be a simplified ILAS BIPRU firm to apply the scalar provided by BIPRU TP 29 . Where FSA agrees that a scalar approach is appropriate, it will incorporate the scalar into the terms of the firm's simplified ILAS waiver.

### *Modifications*

11.32 In CP09/14 we noted that firms would need to be able to apply for modifications under BIPRU 12.8 and these would need to be ready for use at the date that the BIPRU 12 quantitative requirements will apply to a firm. We said that we would identify 'windows of time' in which firms would be able to apply for modifications. Respondents to CP09/14 agreed this would be helpful and asked for more information about the process and requirements for the modifications available under the new regime. Respondents asked for a clear timeline that set out when firms would be able to submit their applications and be notified of our decision so that firms would be able to plan and prepare for the new regime knowing which requirements would apply.

11.33 We have placed materials on our website which describe the process for applying for liquidity modifications. At a high level, the process for determining applications for these modifications will follow the existing waivers and modifications process. The material on our website has been updated to reflect the final policy position.

11.34 We expect that the time required to decide a liquidity modification will be three months. However, where an application raises particularly complex issues, or does not include the minimum information we would expect to see in a modification applications, it could potentially take longer.

11.35 We are asking firms to submit their modification applications in an allocated time frame depending on upon the date from which each class of firm becomes subject to the BIPRU 12 quantitative requirements. Should several firms within a group wish to apply for liquidity modifications which fall within several of the windows outlined below, then those firms should all submit their applications at the earliest relevant date. (For example, a group containing two sterling stock banks and a full-scope BIPRU investment firm should submit all applications by 15 December 2009). Any application received before the window allocated to it, will not be considered ahead of this time. Should a modification application be received after the window has closed for that particular class of firm, we will not be able to guarantee to make a decision, even in straightforward cases, by the date from which the firm becomes subject to the BIPRU 12 quantitative requirements, including self-sufficiency.

11.36 If we consider that a firm should apply at an earlier date to that set out in the timeline below, the firm's usual FSA supervisory contact will be in touch to discuss this.

11.37 We request that those building societies, which will be seeking to adopt simplified ILAS submit their modification applications and applications for the simplified Individual Liquidity Adequacy Standards (ILAS) waiver by 1st March 2010. These building societies need to be in possession of a simplified ILAS waiver by 1 June 2010 otherwise they will be required to comply with the standard ILAS from that date.

11.38 The timeline is designed to give firms time to finalise their arrangements in the knowledge of the waiver and modification decisions and in readiness for the start of the BIPRU 12 quantitative requirements. If we do not grant the modification a firm seeks, it will need to take steps to revise its arrangements as necessary to deliver compliance with the requirements that will apply to it. If a firm is not able to make the necessary amendments and so is unable to comply with the relevant BIPRU 12 quantitative requirements when they switch-on, it is possible that supervisory action (for example guidance under BIPRU 12.9 or other regulatory powers available to us) may be required. In cases where there is a delay in receiving information from a parent firm or other jurisdiction, it may be appropriate for us to issue guidance under BIPRU12.9 or to consider using its other regulatory powers. Each case would need to be assessed on its merits. The deadlines are:

- sterling stock banks/building societies (not adopting simplified ILAS):
  - (i) latest modification submission date: 15 December 2009
  - (ii) modification application determined: 1 April 2010
  - (iii) BIPRU 12 quantitative requirements switch-on: 1 June 2010
- building societies adopting simplified ILAS:
  - (i) latest modification and waiver application for simplified ILAS submission date: 1st March 2010
  - (ii) modification/waiver application determined: 1 June 2010
  - (iii) BIPRU 12 quantitative requirements switch-on: 1 October 2010
- mismatch banks (including those that will seek to adopt simplified ILAS):
  - (i) latest modification submission date: 1 March 2010
  - (ii) modification application determined: I July 2010
  - (iii) BIPRU 12 quantitative requirements switch-on: 1 October 2010

- branches (with a GLC); branches (no GLC); full-scope BIPRU investment firms which are also ILAS BIPRU firms (including those that will seek to adopt simplified ILAS):

  (i) latest modification submission date: 1 June 2010

  (ii) modification application determined: 1 October 2010

  (iii) BIPRU 12 quantitative requirements switch-on: 1 November 2010

- Firms applying for simplified ILAS modifications (other than building societies) should have regard to the submission and determination dates applicable to their category of firm, as set out above.

### *Regulatory reporting requirements*

11.39 As discussed in CP09/14, the switch-on of the new regulatory reporting requirements will need to align with the transitional arrangements provided to firms for the BIPRU 12 quantitative requirements.

11.40 As noted in this chapter, the new BIPRU 12 regime is to commence on 1 December 2009 and at that date the transitional measures provided by BIPRU TP26 to 30 will take effect. During its transitional period, a firm will continue to refer to its current liquidity requirements instead of the BIPRU 12 quantitative requirements, including reference to the adequate financial resources rule instead of the overall liquidity adequacy rule. During the transitional period a firm will therefore continue to submit regulatory reports to us as required by its current regulatory reporting requirements.

11.41 Once a firm's transitional period comes to an end, the BIPRU 12 quantitative requirements, including the self-sufficiency requirement, will apply. From this date, a firm will be required to report under the new regulatory reporting regime. Chapter 10 of this PS describes the design and scope of our final reporting policy. The Handbook rules in SUP 16.12 include certain transitional measures for the regulatory reporting requirements.

11.42 In the case of ILAS BIPRU firms authorised in the period up to 30 November 2009:

- Firms which currently report to us using the Liquidity Risk Profile (LRP) *ad hoc* report on a voluntary, best-efforts basis will be asked to continue to do so until the new reporting requirements come into effect.

- Data items FSA047, FSA048 and FSA052 will roll out to these firms from 1 June 2010; and

- Data items FSA050, FSA051, FSA053 and FSA054 will commence from 1 November 2010.

11.43 In the case of ILAS BIPRU firms that become an ILAS BIPRU firm on or after 1 December 2009:

- in the period from 1 December 2009 to 30 May 2010, these firms will be required to submit data items FSA047 and FSA048 within the framework of the extended LRP reporting project;
- from 1 June 2010, these firms will be required to submit data items FSA047, FSA048 and FSA052; and
- from 1 November 2010, these firms will be required to submit data items FSA050, FSA051, FSA053 and FSA054.

11.44 The first data item that non-ILAS BIPRU firms (exempt full-scope BIPRU investment firms, limited licence and, limited activity BIPRU investment firms) will be required to submit will be the FSA055 systems and controls questionnaire for the year to 31 December 2010. In the case of mismatch banks, these firms will be required to submit FSA010 in the period from 1 October 2010 until they are issued with ILG (i.e. they will be required to submit both the 'old' and new reports in this period).

11.45 This table provides a summary of the dates when the suites of data items applicable to ILAS BIPRU firms will first apply:

| **Class of firm** | **Firms will be required to submit data items FSA047, FSA048, FSA052 from:** | **Firms will be required to submit data items FSA050, FSA051, FSA053, FSA054 from:** |
|---|---|---|
| Sterling stock bank<br>Building society (which will not be a simplified ILAS BIPRU firm) | 1 June 2010 | 1 November 2010 |
| Building societies (which will be a simplified ILAS BIPRU firm) | 1 October 2010 | 1 November 2010 |
| Mismatch banks (which will not be a simplified ILAS BIPRU firm) | 1 October 2010 | 1 November 2010 |
| Mismatch banks (which will be a simplified ILAS BIPRU firm) | 1 October 2010 | 1 November 2010 |
| Branch without a GLC<br>Branch with GLC<br>Full-scope investment firm which is also and ILAS BIPRU firm (including firms which will also be simplified ILAS BIPRU firms) | 1 November 2010 | 1 November 2010 |
| Firms that become ILAS BIPRU firms on or after 1 December 2009 | In the period from 1 December 2009 to 30 May 2010 firms will be required to submit data items FSA047 and FSA048 within the framework of the extended LRP reporting project.<br>From 1 June 2010, these firms will be required to submit data items FSA047, FSA048 and FSA052. | 1 November 2010 |

# 12 Investment firms

## Introduction

12.1 This chapter summarises the final Handbook provisions that apply to full-scope BIPRU investment firms.

12.2 In Consultation Paper 08/22 (CP08/22) we proposed that all full-scope BIPRU investment firms should be subject to the Individual Liquidity Adequacy Standards (ILAS) regime, and would have to maintain a buffer of high-quality government bonds to cover the risk of liquidity outflows in a stress. Chapter 2 of this Policy Statement (PS) provides a summary of the feedback we received to CP08/22 including that from investment firms.

12.3 We received strong feedback that including all full-scope BIPRU investment firms, of whichever size, in the ILAS regime would be disproportionate both in terms of their systemic risk and quantum of liquidity risk.

12.4 However the recent financial crisis has demonstrated that a wide range of business models can be adversely affected by deteriorating financial market conditions. In addition, in common with other ILAS firms, full-scope BIPRU investment firms currently have to assess their liquidity risk as part of their Individual Capital Adequacy Assessment Process (ICAAP).

12.5 Our final policy reflects feedback we received on the proportionality and scope of our policy. In particular, we have amended the scope of the quantitative standards so that only the larger full-scope BIPRU investment firms will have to comply with the regime's detailed quantitative requirements. Non-ILAS BIPRU firms (limited licence BIPRU investment firms, limited activity BIPRU investment firms, exempt full-scope BIPRU investment firms) will need to comply with the overall liquidity adequacy rule. The modifications in BIPRU 12.8 may also be relevant. Additionally, non-ILAS BIPRU firms will need to comply with the BIPRU 12.3 and 12.4 systems and control requirements.

## High-level feedback to the consultation

12.6 Almost all respondents were concerned that our proposal to apply the ILAS quantitative standards to all full-scope BIPRU investment firms was disproportionate. Respondents were also concerned that we were making several changes simultaneously for smaller full-scope BIPRU investment firms, and asked for a more measured approach to affected firms.

## Final policy

12.7 A common case presented for investment firms to be excluded or partly excluded from the new liquidity risk management requirements is that the impact of liquidity risk crystallising in an investment firm is negligible and therefore poses no risk to the financial system.

12.8 A smaller investment firm may not individually pose a systemic risk, however many investment firms conducting similar activities have similar structures and strategies. This interconnectedness could result in a significant shortcoming in an investment firm to possibly be present in other investment firms conducting similar activities. Therefore, as a collective such a shortcoming could intensify into a sector-wide crisis. We must mitigate this risk.

12.9 We think it is important that, through systems and control requirements, firms be required to consider their liquidity risks and the external events that might trigger crystallisation of these risks; this should puncture any false mindset amongst the governing body and senior management that such risks cannot arise for their firm.

*Quantitative requirements*

12.10 Based on feedback relating to the proportionality of applying quantitative standards to full-scope BIPRU investment firms we are proposing to limit the application of the ILAS quantitative standards to larger full-scope BIPRU investment firms, but will keep this segmentation under review.

12.11 Full-scope BIPRU investment firms with total assets minus called-up share capital, minority interests and reserves exceeding £50mn will be subject to the ILAS framework. This change will mean that approximately 200 firms will, for the time being, be scoped-out of our quantitative liquidity regime and the associated reporting requirements.

12.12 For larger full-scope BIPRU investment firms, our final policy requires that they apply the quantitative standards set out in BIPRU 12.5.

*Reporting requirements*

12.13 In addition to the changes to the quantitative requirements, we have changed the reporting requirements for smaller firms, including smaller full-scope BIPRU investment firms. Firms with total balance sheet assets of less than £1bn will be subject to low-frequency reporting. This is discussed further in Chapter 10. The table below summarises the quantitative and reporting requirements for full-scope BIPRU investment firms:

| | | **Size** | |
|---|---|---|---|
| | | Less than £50mn | Greater than £50mn |
| **Total assets** | Less than £1bn | Non-ILAS | Standard ILAS, low-frequency reporter |
| | Greater than £1bn | Non-ILAS | Standard ILAS, normal reporting frequencies |

*Qualitative standards*

12.14 There is little change to the qualitative requirements proposed in CP08/22. These qualitative requirements (BIPRU 12.3 and 12.4) are structured so that most of them are Evidential Provisions or Guidance, allowing firms to apply robust standards that best reflect the liquidity risks they run. This is set out in further detail in Chapter 5.

12.15 Investment firms will be required to comply with BIPRU 12.3 and 12.4. This may initially seem like a substantial set of additional rules, however, when contrasting these requirements with the current qualitative liquidity requirements in SYSC 11 – with which investment firms should currently be complying – the modifications are not substantial.

## Next steps

12.16 We acknowledge the responses to CP08/22. They have helped us, as described, to finalise the application of the new liquidity risk requirements to BIPRU investment firms. We have tried to do so without detracting from the comprehensiveness and robustness of the new liquidity risk framework.

12.17 We are in discussion with relevant trade associations about the possible development of industry guidance.

# 13 Cost benefit analysis

## Introduction

13.1 Section 155 of the Financial Services and Markets Act 2000 (FSMA) requires us to perform and publish a cost benefit analysis (CBA) of our proposed rules and, as a matter of policy, we do so for significant proposed Guidance relating to Rules. The purpose of a CBA is to assess, in quantitative terms where possible and in qualitative terms where not, the incremental costs and benefits of a proposed policy. FSMA does not, however, require us to perform a CBA of rule changes that are likely to have costs of no more than minimal significance.

13.2 This CBA is structured as follows:

- high-level feedback to previous CBAs;
- overview of final policy;
- firms affected by the proposed changes;
- costs of the new liquidity regime to firms, the FSA and the wider economy; and
- benefits of an enhanced liquidity regime to firms and the wider economy.

13.3 This CBA is based on a review of literature, including academic articles and analysts' reports, regulatory returns, discussion with firms, and input from policy, supervisory and other experts with the FSA. This work builds on previous work conducted for Consultation Papers (CPs) 08/22, 09/13 and 09/14. We are grateful to firms and other third parties that have provided input to the CBA.

13.4 We intend to publish further research on the macro-economic impact of our proposals by the end of Q1 2010.

13.5 All the costs and benefits discussed and/or estimated in this CBA refer to liquidity standards in isolation and do not consider any other regulatory intervention.

13.6 The table below summarises the expected costs of the proposed liquidity regime.

| | |
|---|---|
| **Costs to firms arising from the new quantitative standards** | The cost to firms will depend upon how we calibrate Individual Liquidity Guidance (ILG) relative to the stress tests set out in BIPRU 12.5 and the actions firms choose in response to our new regime. For example, many firms will lengthen the maturities of their short-term wholesale funding; whilst some firms will restructure their balance sheets. Given the degrees of freedom involved it is hard to be definitive on the exact costs.<br><br>However, if during the first year of the application of the new regime we assume a calibration of ILG where the firm would need to cover 60% of outflows under the Individual Liquidity Adequacy Assessment (ILAA) stresses and that firms were to lengthen the maturity of 20% of their short-term wholesale funding then we estimate that firms would need to increase their holdings of high-quality government bonds by £110bn.This would give rise to an annual cost of £2.2bn (see later tables).<br><br>We assume that, in practice, most branches of credit institutions operating within the UK would receive modifications, and so would not incur any specific costs from our quantitative standards. However, if all branches decided to be self-sufficient, we would require those branches to build up local liquidity buffers over several years. We estimate that in the first few years, depending on the calibration decision, the cost could be £250mn in aggregate, rising to £2.6bn after the end of the transition.<br><br>For the 90 or so simplified Individual Liquidity Adequacy Standards (ILAS) firms we expect an annual cost of £14m across the industry. |
| **Other compliance costs to firms** | We expect reporting costs to be in line with those estimated in CP09/13. Reporting requirements have been reduced and we have contacted vendors of liquidity management software solutions to verify our previous estimates. |
| **Costs to the FSA** | Our current estimate of the total cost of the programme to the FSA is at £18mn (in the range £16mn to £21mn). |
| **Wider costs to the economy** | The FSA has been working to design a methodology for assessing the wider economic transfers, costs and benefits of significantly tighter prudential regulation. The methodology was developed with the National Institute of Economic and Social Research (NIESR), using the highly-regarded NIESR Econometric Model (NIGEM) of the UK economy.<br><br>The FSA has used this model to look at the net impact of applying liquidity regulation at various different calibrations. The results are preliminary and we wish to understand both the results and the underlying assumptions more fully before coming to a final calibration decision.<br><br>We intend to publish, by the end of Q1 2010, a fuller quantitative description of the net macro-economic impact of liquidity regulation, along with a description of the key underlying modelling assumptions. |

13.7 The table below summarises the expected benefits of the proposed liquidity regime.

| | |
|---|---|
| **A reduction in the probability of bank failure** | The new regime will reduce the probability of banks failing and the associated costs of such events to shareholders, depositors and bondholders. |
| **A reduction in the likelihood and costs of systemic crises** | The new regime will reduce the frequency of systemic financial crises, which historically have had large negative impacts on gross domestic product (GDP) in a range of countries. |

13.8 The initial results of our cost benefit work with NIESR show that, up to a point, there is a net economic benefit associated with tougher liquidity standards. The initial results, which must be regarded as subject to significant uncertainty, suggest that if firms were to increase the level of high-quality liquid assets on the balance sheets by roughly up to 10 percentage points there could be a net benefit to economic output; we are undertaking further work to consider the level of confidence we can place in this range. Our policy impacts the wider economy as firms pass on costs to their customers, with consequent lower growth. But this effect is offset by lowering the probability of banking sector crises, which have large economic costs. The analysis indicates a range within which increased liquidity regulation provides a net economic benefit in terms of output. It is also possible, in principle, to justify regulations beyond this point by taking into account the welfare benefits associated with a more stable, lower-growth economy. However the FSA, in line with international consensus, is also planning a significant tightening of capital standards which will interact with increased liquidity regulation. We intend to approximate the joint impact of increases in both capital and liquidity standards to inform our final liquidity calibration.

## Summary of previous liquidity CBAs

13.9 We published a CBA of our initial policy proposals in each of the *Strengthening liquidity standards* consultations.

13.10 The CBA in CP08/22, *Strengthening liquidity standards,* focused on large firms. We estimated the cost of implementing enhanced systems and control requirements for these firms, as well as the cost of holding lower yielding liquid assets. We did not consider any changes in wholesale funding as a result of compliance with the proposals. Final cost estimates varied between £1.3bn and £5.3bn, depending on different scenarios. Reporting and other costs to firms (excluding costs arising from complying with the quantitative standards) were estimated in the range of £0.15-£0.2bn. Costs to the FSA were estimated in the range of £11-£14mn.

13.11 In their responses to CP08/22, firms expressed concerns about the costs and the impacts on smaller firms. In some instances they also felt they needed more detail on the regime to estimate their true implementation costs. Firms insisted on the importance of having transitional arrangements for implementation. Regarding the benefits, respondents generally agreed that the new regime would make firms more resilient to liquidity risk and would reduce systemic risk in the financial system.

13.12 In CP09/13, *Strengthening liquidity standards 2: Liquidity reporting,* we considered the cost of the proposed new reporting requirements based on a survey of banks, building societies, investment firms and branches. Average one-off and ongoing costs to firms varied significantly depending on the type of firm and type of reporting requirement. We used the same estimates in this CBA so we do not reproduce them here. Costs to the FSA were estimated in the range of £7-£9mn.

13.13 Some firms thought our reported cost estimates in CP09/13 were too low. However, as we explained in the consultation, the average costs presented displayed high variance. Liquidity reporting software vendors have confirmed that these estimates were reasonable. Ultimately, the costs will depend on the size and complexity of the firm and the current status of their systems. Overall, firms generally agreed with the benefits of having better-quality liquidity data available.

13.14 Finally, CP09/14, *Strengthening liquidity standards 3: Liquidity transitional measures,* considered transitional arrangements. The CBA included an estimate of how liquidity compliance costs for simplified ILAS firms would be spread over the transitional period. Estimated incremental costs to simplified firms were £2mn. Transitional proposals for standard ILAS and non-ILAS firms were not covered since transitional arrangements for these firms either do not impose new liquidity requirements and/or would only defer the application of the regime described in CP08/22.

13.15 All consultation responses recognised the benefits expected to arise from a strengthened liquidity regime. In particular, these benefits would materialise through a reduction in the probability of firm failure as well as in a reduction in the likelihood (and expected cost) of systemic instability. In addition, the new liquidity reporting requirements will make crisis management and supervision of liquidity risk more effective. They will also improve financial stability by providing the Tripartite Authorities with granular and standardised liquidity data.

## Overview of the final policy

13.16 The final liquidity policy continues with the approach proposed in CP08/22 and is based on the principle that firms must be able to demonstrate self-sufficiency and the adequacy of liquidity resources on an ongoing basis. To achieve our objective of improving liquidity standards, the final policy still uses the qualitative standards that will be applied to all BIPRU firms (BIPRU 12.3 and BIPRU 12.4), and quantitative standards that will be applied to ILAS firms (BIPRU 12.5 and BIPRU 12.6).

13.17 While retaining the core substance and objectives of our original proposals, we have taken on board comments in certain areas, especially technical feedback and concerns about the proportionality and scope of the regime by:

- removing roughly two-thirds of full-scope BIPRU investment firms from the quantitative regime;
- widening the eligibility criteria for the simplified ILAS approach and extending the liquid assets definition for the simplified regime;
- reducing the amount of data collected for reporting; and
- extending the transitional implementation timetable, giving firms longer to comply with key aspects of the Handbook.

## Overview of the population of firms affected

13.18 Several changes have been made to the scope of the regime. The table below sets out how the population of firms has changed as a result of the policy developments:

| | Business model | Number of firms proposed in CP08/22 | Number of firms in final policy |
|---|---|---|---|
| **Non-ILAS** | Limited licence BIPRU investment firms | 2082 | 2082 |
| | Limited activity BIPRU investment firms | 35 | 35 |
| | Full-scope BIPRU investment firms | 0 | 177 |
| **Standard ILAS** | Banks | 158 | 113 |
| | Building societies | 9 | 9 |
| | Full-scope BIPRU investment firms | 274 | 97 |
| **Simplified ILAS (estimated)** | N/A | 44 | 90 |
| **Branches** | N/A | 197 | 197 |

## Liquidity-related compliance costs

13.19 In this section we estimate the direct cost to firms arising from compliance with our new quantitative standards. The quantitative standards will require firms to hold a buffer of liquid assets to offset liquidity risks, and/or amend their business model and activities to reduce the buffer requirements.

### *Setting the baseline scenario*

13.20 This CBA focuses on incremental costs and benefits. This involves a comparison of the situation faced by firms complying with the new liquidity regime, and the hypothetical situation in which firms do not face the new regulation and continue to make their business choices about liquidity under our existing standards for liquidity risk management. We define this situation as the 'baseline scenario'. The baseline scenario in this CBA for estimating the liquidity-related compliance costs is data submitted by firms as of July 2009.

### *Standard ILAS firms*

13.21 For standard ILAS firms, we expect the main cost driver to be compliance with the new quantitative standards. To estimate the costs to firms, we assumed that they can follow two approaches:

- Firms increase their holdings of liquidity buffer assets. The cost of this approach is the return on assets forgone as firms replace a proportion of their higher-yielding assets with eligible liquid assets;

- Firms lengthen the maturity of wholesale funding to reduce their liquidity risk and, thus, the amount of liquid assets required for compliance with our new quantitative standards.

13.22 Other approaches are open to firms. For example, instead of swapping existing banking assets into government bonds, firms could increase the size of their balance sheets to fund liquid assets.

13.23 We sampled the liquidity positions of 18 standard ILAS firms. The sample included building societies and commercial and investment banks, representing more than 95% of the UK banking system by asset size. For the purpose of estimating the impact of the new framework we assumed that Individual Liquidity Guidance (ILG) was purely driven by the output of the ILAA stresses. As set out earlier in this Policy Statement (PS), this calibration decision has yet to be made (see Chapter 1).

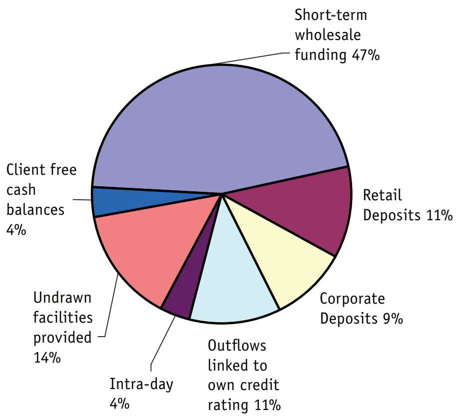
13.24 We applied our best estimates of the outcomes of the ILAA stresses set out in BIPRU 12.5 to each firm in the sample. This was used to generate a liquidity buffer requirement for each firm. Our approach may over-estimate the size of the buffer requirement where a firm has significant gilt repo operations as we have assumed that the size of the buffer is measured as the lowest end-of-day balance in government securities over a three-month period. In addition, it is also important to recognise that the banking system is currently in a period of stress and many firms are in a position where their liquidity risk is worse than their long-term risk appetite. We then looked at the aggregate shortfall across all firms for several scenarios, including those where firms increased the term of their wholesale funding.

13.25 This information was used to produce an aggregate cost to the banking system, which we have translated into a high-level estimate of the increased cost of credit that could result from the new standards.

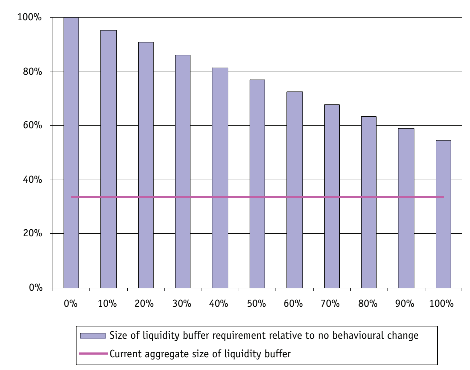
13.26 Our analysis shows that, based on firms' recent liquidity risk profiles, the UK banking system currently maintains about £280bn of high-quality liquid asset buffers that meet our new standards for the liquidity buffer. The table below shows the shortfall in liquidity buffers that would exist depending on how we calibrate ILG. It also shows how this shortfall changes when firms change their behaviour by reducing the amount of short-term wholesale funding on which they rely.

| | | Liquidity buffer shortfall (in £bn) to industry assuming ILG is calibrated as: | | | | | Amount of short-term funding in the system (funding < 3 months) |
|---|---|---|---|---|---|---|---|
| | | 100% of ILAA stresses | 80% of ILAA stresses | 60% of ILAA stresses | 40% of ILAA stresses | 20% of ILAA stresses | |
| **Reduction in short-term wholesale funding** | No change | 620 | 440 | 150 | 0 | 0 | 500 |
| | 20% reduction | 530 | 370 | 110 | 0 | 0 | 400 |
| | 40% reduction | 450 | 310 | 70 | 0 | 0 | 300 |
| | 60% reduction | 370 | 240 | 30 | 0 | 0 | 200 |
| | 80% reduction | 290 | 180 | 0 | 0 | 0 | 100 |
| | 100% reduction | 210 | 110 | 0 | 0 | 0 | 0 |

**Breakdown of liquidity buffer requirement, by risk type**




**Effect of reductions in the level of short-term funding on the size of the liquidity buffer**



13.27 We then used this analysis to produce a cost figure for each scenario. We assumed that maintaining a portfolio of government bonds has a cost of 150bp,[28] and that lengthening the maturity of wholesale funding has a cost of 50bp.[29] The following table shows the annualised cost to firms for each of the scenarios.

| | | **Cost to industry (in £bn) assuming ILG is calibrated as:** | | | | |
|---|---|---|---|---|---|---|
| | | 100% of ILAA stresses | 80% of ILAA stresses | 60% of ILAA stresses | 40% of ILAA stresses | 20% of ILAA stresses |
| **Reduction in short-term wholesale funding** | No change | 9.2 | 6.6 | 2.3 | 0 | 0 |
| | 20% reduction | 8.5 | 6.1 | 2.2 | 0.5 | 0.5 |
| | 40% reduction | 7.8 | 5.7 | 2.2 | 1.1 | 1.1 |
| | 60% reduction | 7.2 | 5.2 | 2.1 | 1.6 | 1.6 |
| | 80% reduction | 6.5 | 4.8 | 2.2 | 2.2 | 2.2 |
| | 100% reduction | 5.9 | 4.4 | 2.7 | 2.7 | 2.7 |

13.28 We expect these costs to be absorbed by the wider economy than by the banks themselves.[30] We will publish our analysis of the macro-economic impact in the near future.

### *Simplified ILAS firms*

13.29 To calculate the impact of the simplified ILAS regime, we sampled the liquidity positions of nine eligible firms. Using the same approach and assumptions we used for the CBA in CP09/14, we estimated the standard buffer ratio for the sample. In the updated simplified approach we set out two stress factors for retail deposits; 10% for high-quality retail deposits and 20% for low-quality deposits. For the purposes of the CBA we have assumed that 60% of retail deposits are higher quality, and 40% lower quality. This leads to an average retail stress of 14%. This data for the sample was used to produce an aggregate cost to simplified ILAS firms, which we have translated into a high-level estimate of the cost of the new standards. The key cost driver for these firms is the retail deposit component.

28 This estimate corresponds to the difference between the current five-year yield to maturity of UK gilts and the average return on asserts as of December 2007 for the ten largest UK banks. A similar estimate was used in the CBA published in CP 08/22. More recent profitability data would distort the results due to the large losses some banks have reported in recent times. We do not adjust for future credit losses, so the estimate of costs may be too high.

29 This estimate was calculated by looking at the highest cost of long-term funds for UK banks between 2000 and early 2007 using a number of secondary market indices maintained by leading investment banks. We believe that this is a highly conservative estimate of the long-run cost of wholesale funding.

30 Firms will seek to keep their profitability ratios constant by passing these costs onto their counterparties through increased asset yields or decreased funding costs.

13.30 The sample generated two distinct groups of firms; one group that comfortably meets the simpler quantitative standards, and a second group that falls short of the required standard by roughly 7% of their total balance sheet assets on average. Using the same analysis as above and assuming that our sample accurately represents the proportion of firms that will have a liquid assets shortfall, the cost of compliance for simplified ILAS firms would be £14mn a year.

### *Branches*

13.31 The analysis is complicated by the ability of branches to obtain whole-firm liquidity modifications that would exempt them from complying with the new quantitative standards. To simplify, we consider two scenarios. First, branches have to be self-sufficient for liquidity purposes due to a whole-firm modification application being rejected or not made. Second, branches apply and obtain a whole-firm modification. Then we compare the cost of each option.

13.32 To analyse the impact of requiring branches to become self-sufficient we looked at the FSA010 returns for 88 branches during 2009. The branches sampled do not currently have Global Liquidity Concessions (GLCs). We looked at the liquidity mismatch for each branch excluding intra-group inflows and committed lines from the head office to reflect the constraints of our new Rules and Guidance. The table below summarises the results of this analysis:

| | **Sight – 8 days** | **Sight – 1 month** |
|---|---|---|
| Median point | 3.4% | -1.3% |
| 75th pPercentile | -2.2% | -12.6% |
| 90th percentile | -9.4% | -23.4% |
| 95th percentile | -14.9% | -31.1% |

13.33 The analysis shows that half of all branches would not be affected by the move to self-sufficiency alone, although a number of branches would suffer material impacts. Assuming that branches make up the deficit through increased holdings of government bonds, we estimate the cost of compliance to be approximately £0.4bn a year spread over 48 branches.

13.34 The analysis assumes that current behavioural assumptions for branches under existing regulations remain unchanged; it is possible that in future we will require tougher assumptions. In addition, our analysis only considers the liquidity position out to one month, whereas we will be considering liquidity profiles out to three months. Both of these assumptions could mean that costs are higher than proposed.

13.35 In addition to the cost of self-sufficiency, we will require self-sufficient branches to maintain an operational liquidity reserve. The exact size of the reserve will depend on the systemic importance of the branch and our view of the perceived riskiness of the branch. The table below estimates the costs, in total, of maintaining the operational liquidity reserve for the 88 branches under three different scenarios (2%, 4% and 6% of their total balance sheet).

| Percentage of branch balance sheet | Estimated cost of operational liquidity reserve |
|---|---|
| 2% | £0.2bn |
| 4% | £0.5bn |
| 6% | £0.75bn |

13.36 These cost estimates assume that branches do not simply transfer liquid assets from elsewhere in the firm, which, whilst increasing the cost to the branch, might have a smaller impact on the whole-firm.

13.37 If branches obtain whole-firm liquidity modifications, then we do not expect them to incur any costs from quantitative standards. However, there will be costs for reporting which are analysed in the following section.

## Other compliance costs to firms

13.38 The implementation of the new liquidity regime will lead to operational compliance costs for firms. These can include:

- meeting FSA reporting and documentation requirements;
- new IT infrastructure;
- improved liquidity risk management, record keeping and monitoring systems;
- new hires and employment of professional advisers; and
- other compliance costs, such as administrative costs derived from demands for more and better firm liquidity risk information from investors and other counterparties.

13.39 We provide estimates for these compliance costs below. These estimates are based on firms' surveys, consultation responses and indicative quotes provided by software vendors.

13.40 SYSC 11 already requires firms to have certain systems and controls in place for liquidity risk management. We expect the largest operational compliance costs of the new liquidity risk management rules to result from additional reporting requirements, which in most cases will also involve hiring additional staff and improving or developing IT systems to ensure compliance with the new requirements. We expect that part of the system costs will arise from Evidential Provision 12.3.6E on internal management information systems. These costs are reflected in the indicative quotes provided to us by software vendors.

13.41 The more granular reporting requirements are detailed in Chapter 10. On a default basis, we require each individual ILAS firm to report separately on each of the following bases (where applicable):

- solo basis;
- UK consolidation group, if a UK firm is a member of such a group; and
- Defined Liquidity Group (DLG), if a UK firm is a member of such a group.

13.42 The costs for different categories of firms were estimated in CP09/13, based on a survey questionnaire to 34 firms. Compared to CP09/13, the final policy sees a reduction in the overall number of data items to be reported and in the reporting frequency, which will lower the incremental cost of the policy. These changes are discussed in Chapter 10.

13.43 In their feedback some firms criticised these estimates, while others felt it was difficult to give an estimate until the final proposals are unveiled. However, as we indicated in CP09/13, estimates typically displayed high variance, and in reality costs vary widely because of sampled firms' differing characteristics and the extent to which their internal systems need to be adapted to meet our new requirements. We report averages for firms with assets under and over £100bn separately.

13.44 In addition, we contacted vendors of liquidity management software which confirmed the order of magnitude of our estimates.

13.45 All compliance cost estimates are subject to uncertainty and should be interpreted with care. Firms' structures and systems differ widely, meaning that information may have been lost in aggregating cost data across firms. While we have made the conservative assumption that the compliance costs reported by firms are truly incremental (i.e. solely incurred due to our proposals) unless otherwise stated by firms, it is possible that part of these costs would in fact have been incurred even in the absence of our new liquidity reporting proposals, for example, for internal liquidity risk management purposes.

13.46 The rounded estimates below distinguish between implementation (one-off) costs and ongoing costs by categories of firms. Implementation costs will be incurred mainly in upfront systems requirements, whereas ongoing costs will mostly comprise staff remuneration and operating expenses related to the maintenance of regulatory reporting and IT systems.

| | **Average one-off costs of surveyed firms** | | **Average ongoing costs (per year) of surveyed firms – business as usual** | | **Average ongoing costs (per year) of surveyed firms – stress reporting** | |
|---|---|---|---|---|---|---|
| ***Assets*** | *under £100bn* | *over £100bn* | *under £100bn* | *over £100bn* | *under £100bn* | *over £100bn* |
| **UK banks** | £170k | £5,500k | £55k | £1,600k | £75k | £2,000k |
| **UK building societies** | £50k | n/a | £20k | n/a | £135k | n/a |
| **UK full-scope BIPRU investment firms** | £610k | £9,000k | £330k | £1,600k | £375k | £2,700k |

13.47 We have reasons to believe that these estimates are not too low. We have reduced the reporting requirements of the new policy. We also contacted vendors of software solutions for liquidity reporting, who confirmed that the numbers were reasonable and indicated that they would typically charge less than the average one-off costs we presented.

13.48 In particular, one vendor indicated that their software licence fees are based on the total assets of an institution. The minimum cost for a small institution (with total assets up to £26bn[31]) of the relevant software modules (cashflow estimation, data preparation and reporting) would be around £165k. The maximum cost of these modules for large institutions (circa £350bn of total assets and over[32]) would be around £2mn. Implementation cost would involve around 80 person days at £1.2k per person day for small institutions (circa £96k) and around 200 person days for large institutions (circa £240k).

13.49 A second provider also suggested smaller one-off costs than the average number presented in the consultation. Their estimated one-off cost for banks would be around £1.6mn, while for full-scope BIPRU investment firms their estimated one-off cost was in the range between £3.7mn and £5.2mn.

13.50 Finally, a third provider indicated price estimates according to a firm's assets. These costs are summarised in the table below. They are lower than the averages of those estimated by banks and full-scope BIPRU investment firms during consultation.

| Vendor 1 | Indicative one-off cost (software and implementation) |
|---|---|
| Up to £26bn in assets | £261k |
| £350bn in assets and over | £2,240k |

| Vendor 2 | Indicative one-off cost as in CP09/13 |
|---|---|
| Banks | £1,650k |
| Full-scope BIPRU investment firms | £3,700k – £5,180k |

| Vendor 3 | Indicative one-off cost for software and services |
|---|---|
| Under £10bn in assets | £110k |
| Around £50bn in assets | £150k |
| Around £150bn in assets | £235k |
| Around £400bn in assets | £360k |
| Over £600bn in assets | £480k |

13.51 Overall, one-off cost estimates provided by vendors of system solutions seem to be within the range of those provided for banks, building societies and full-scope BIPRU investment firms in CP09/13.

31 €30bn converted at a 1.15 GBP/EUR exchange rate

32 €400bn converted at a 1.15 GBP/EUR exchange rate

13.52 The 2,117 limited licence or limited activity BIPRU investment firms in the UK would not be subject to our proposed quantitative reporting requirements but would be required to complete annually the FSA054 systems and controls questionnaire to help monitor their compliance with our qualitative rules and guidance. The five limited licence or limited activity BIPRU investment firms that we contacted confirmed that this would impose only negligible costs on them. In their feedback to the consultation, some limited licence or limited activity BIPRU investment firms indicated that additional follow-up queries on their reporting could lead to some extra costs.

### *Branches*

13.53 The default rules require branches to report on a solo branch basis. However, where a branch obtains a whole-firm liquidity modification that switches off the self-sufficiency requirement, it will be required to report liquidity data to us on a whole-firm basis. In particular, if a branch successfully applies for a waiver, it will be subject to lower reporting requirements and we do not expect it to face significant incremental IT systems costs. It will not be subject to the ILAS regime and to the weekly reporting and T+1 submission date. Instead, it will report whole-firm data to us on FSA048 on an infrequent basis (typically quarterly for high-impact firms and annually for lower impact firms), with a 30-day submission deadline. Costs for this will be lower than the cost estimated above for an equivalent UK firm, given the fewer data items, reduced reporting frequency and extended submission times.

13.54 If a branch opts for the self-sufficiency route, standard ILAS reporting requirements will apply and estimates in the range of those indicated in CP09/13 may apply. These are reported in the table below. In its response, one large firm suggested that these estimates may be on the low side. However, we believe the average estimates provided by branches in CP09/13 are still relevant.

| | Average one-off costs | Average ongoing costs (per year) – business as usual | Average ongoing costs (per year) – stress reporting |
|---|---|---|---|
| **Branches** | £600k | £150k | £170k |

### *Modifications*

13.55 The compliance cost survey for CP09/13 also included a question on the cost of completing and submitting a complex modification application, as might be required under the group-wide management of liquidity position outlined in Chapter 9. These modification applications would not focus solely on liquidity reporting requirements but are likely to contain a section on them. These costs are therefore not purely reporting-related but encompass aspects of the wider liquidity regime.

13.56 Again, firms' structures and complexity differ widely. Consequently, there is a large variance in the estimates of the costs for waiver application and processing.

13.57 Branches of two foreign banks indicated costs for the waiver process averaging £35k. Two large, internationally-active, full-scope BIPRU investment firms separately provided cost estimates averaging £765k. These estimates reflect the complexity of the waiver preparation process for these firms. One small full-scope BIPRU investment firm submitted an estimate of £4k, consisting mostly of staff costs. This low estimate reflects the simpler nature of the waiver it would require. Thus, we take the cost for a waiver to be in a range of about £35k – £765k, depending on the size and complexity of the firm.

13.58 In their responses to the consultation, some firms suggested these estimates were reasonable, given the uncertainty surrounding the waivers system. One responding firm, which attempted to quantify the cost, indicated a figure of £1.7mn for a complex entity.

## Direct costs to the FSA

13.59 The implementation of the new liquidity regime will require a number of additional resources and a reallocation of staff from a range of business areas within the FSA.

13.60 To make best use of the new liquidity data, we will need to make significant investments in our information systems. Current data collection and validation systems will also have to be enhanced. We estimate that we will incur a cost of £10mn (with a range of £9mn to 12mn) to implement these changes.

13.61 We expect to incur additional business costs, including new staff for supervision of the proposed new liquidity regime, training, project management, and processing waivers applications.[33] These costs are estimated at £8mn (with a range of £7mn to £9mn).

13.62 Therefore, our best estimate of the total cost of the regime for the FSA is £18mn (with a range of £16mn to £21mn).

## The benefits of the new regime

### *Reduction in expected costs of firm-level defaults*

13.63 We can expect the new regime to reduce the occurrence of stress conditions by obliging firms to reduce their liquidity risk. Even if intervention is required, larger liquid asset buffers would provide the firm and the authorities with additional valuable time. This can make episodes of stress much cheaper for the firm and for the authorities to resolve, particularly because a private sale may become easier to achieve.

13.64 The extent to which the regime will reduce firms' default probability and, consequently, the probability of crises, will depend on how the following mechanisms operate:

- the establishment of robust liquidity risk management strategies and frameworks that ensure that liquidity levels are adequate for firms' risk profiles, and that liquidity risk is effectively controlled and monitored;

33 For a comprehensive analysis of costs arising from processing waiver applications see CP09/13, *Strengthening liquidity standards 2: Liquidity reporting*, p. 35.

- the degree to which liquidity costs, benefits and risks are incorporated in firms' internal pricing, performance measurement and product approval processes;
- whether adequate contingency funding plans are put in place to address liquidity shortfalls;
- the extent to which firms disclose adequate information about liquidity risks to market participants and supervisors;
- the effectiveness of supervisory monitoring and intervention; and
- the success of international cooperation between authorities.

13.65 We believe that, in practice, the new liquidity regime will reduce the probability of firms failing and thus provide benefits through reducing the expected costs of such events. Apart from the obvious costs of failure to owners and employees, firm failure may also represent costs to taxpayers through resolution of the failed firm, or to Financial Services Compensation Scheme (FSCS) levy payers (i.e. other deposit-takers) if the FSCS is required to pay out insured deposits. Further costs of firm failure may arise to its borrowers and other creditors, including depositors.

## Impacts on the wider economy

13.66 As we said in CP08/22 – and respondents to the consultation generally agreed with us – we believe that the level of capital and liquidity held by firms has a significant impact on the probability and intensity of financial crises. Financial crises can impose major costs on society,[34] particularly if they cause and/or aggravate downturns in the businesses cycle, increasing the resulting loss of output and employment. It follows that regulations, which increase the level of liquidity held by firms to a level which significantly reduces the probability of firms failing and consequently the probability and intensity of financial crises, could yield significant benefits. This is unless the increase is large enough to trigger countervailing costs of similar or even greater size.

13.67 Assuming that reducing the probability and intensity of financial crises does help avoid sharp reductions in output and employment, such as that experienced following the current financial crisis, economic growth would be less volatile. In this case, the aggregate level of economic output over the coming decades may be higher than would be the case if the economy were again to go through a boom-and-bust cycle exaggerated by financial crisis.

13.68 This potential benefit is very difficult to estimate. The probability of a financial crisis, the depth and duration of a crisis should one occur, and the impact of a crisis on the real economy cannot be predicted with a high degree of accuracy. However, the extent of the turmoil in the world economy resulting from the 2008 financial crisis should encourage us to err on the side of according crisis prevention a high priority.

34 An analysis of the costs of the recent crisis is provided in Honohan, P. (2008) 'Risk Management and the Costs of the Banking Crisis', Journal of the National Institute of Economic Research, no. 206, pp. 15 – 24.

13.69 The cost to set against this benefit arises as follows. Intermediaries hold highly liquid assets to help manage the mismatch in the maturity between their debt funding and lending (assets). An unexpected withdrawal of (short-term) debt funding can be met by the sale of these liquid assets. However, these liquid assets attract lower returns for the firms, so increases in their holdings of liquid assets reduce their overall level of returns. Firms will look to offset this reduction in the return on their assets by increasing charges.

13.70 The increase in the cost of personal and, especially, industrial finance driven by capital and liquidity policy changes then interacts with the demand for finance and induces a reduction in both borrowing and lending by firms to the economy. In consequence, some marginal projects are not undertaken and output is reduced. These costs may be partially offset if customers, particularly large corporates, access debt capital markets directly, instead of borrowing from the financial sector.

13.71 It is important to note that the constraint imposed by our consumer protection objective may be relevant. If it were clearly established that consumers place a very high value on stability and are willing to pay a substantial sum to achieve it (in the form of output foregone), then it may be appropriate for us to set capital and liquidity standards at a level higher than the level implied by a pure maximisation of long-term output.

# 14 Compatibility statement with our objectives and the principles of good regulation

## Introduction

14.1 This chapter sets out our views on how the proposed liquidity standards are compatible with our statutory objectives and the principles of good regulation.

## Compatibility with our statutory objectives

14.2 Our liquidity proposals, as set out in this Policy Statement (PS) and the Handbook text that accompanies it aim to meet our statutory objectives, primarily our market confidence and consumer protection objectives.

### *Market confidence*

14.3 This objective requires us to maintain confidence in the UK financial system. The importance of this objective has been made clear as a result of the current economic climate.

14.4 Our liquidity rules and guidance seek to reduce the probability and impact of market disruption arising from financial failure in an authorised firm, or group of firms. Our liquidity rules and reporting arrangements will support this by:

- requiring all BIPRU firms to enhance their systems and controls to improve their liquidity risk management capabilities;
- making the prudential liquidity risk framework more risk-sensitive, to ensure ILAS BIPRU firms hold liquidity in sufficient quantity and quality to meet their liabilities as they fall due;
- improving dialogue between firms and us about the liquidity risks they face, and the level of liquidity they should hold to help mitigate those risks; and
- introducing countercyclical liquidity requirements that rise during favourable economic times and fall during periods of liquidity stress.

14.5 In addition, our transitional arrangements seek to reduce the risk of market disruption, and the potentially destabilising impact of firms attempting to comply with our requirements at an unrealistic pace. However, a balance must be struck between improving standards from the outset, and sustainable implementation of the requirements.

14.6 Ultimately, the proposed liquidity regime should have substantial long-term benefits for overall market confidence, by increasing the resilience of the UK financial services sector to liquidity stresses.

### *Consumer protection*

14.7 The liquidity policy, reporting requirements and transitional arrangements seek to facilitate firms' compliance with the improved liquidity standards. These standards align closely with the risk attributable to firms' business models, and the strength of their systems and controls. We expect that the significant enhancements made to the prudential framework for these firms and to their ability to monitor their liquidity risk drivers will make it less likely that they will fail. This will have a positive outcome for consumer protection.

## Compatibility with the need to have regard to the principles of good regulation

14.8 Section 2 (3) of the Financial Services and Markets Act 2000 (FSMA) requires us to consider the specific matters set out below, when carrying out our general functions.

### *The need to use our resources in the most efficient and economic way*

14.9 The liquidity standards implement agreed international standards for liquidity, and incorporate the substantial feedback we have received from trade associations, firms and our regulatory counterparts.

14.10 Our liquidity policy proposals are designed to ensure that we use our resources efficiently. Additionally, our risk-based, proportionate approach to implementing the new standards acknowledges the likely variation in the ability of firms to meet tougher liquidity standards.

14.11 The initial costs of compliance with elements of our policy could be considerable for some firms, as well as the FSA. However, as outlined in our cost-benefit analysis (CBA) – see Chapter 13 – we believe that this is outweighed by the long-term benefits for the UK financial system. The liquidity requirements will enable us to supervise firms more effectively and efficiently in the future and apply our resources in the most economic way.

*Responsibilities of those who manage the affairs of authorised persons*

14.12 We have discussed our approach to implementing our risk appetite by encouraging a debate on the appropriateness of our liquidity standards, reporting requirements and transitional arrangements. We believe that the final position outlined in this policy statement will deliver improved liquidity risk-management standards.

*A burden or restriction should be proportionate to the benefits*

14.13 We have undertaken a comprehensive CBA to help inform our position on liquidity standards. This is set out in Chapter 13. There is a clear need for considerably greater focus on the prudential supervision of firms' liquidity risk. We have seen how liquidity stresses can lead to widespread, protracted financial crises. Our new liquidity requirements will help ensure that we have the information required to capture firms' liquidity risks more effectively, monitor compliance with our regime and decide on the most appropriate regulatory response to ensure the resilience of institutions.

*Desirability of facilitating innovation in connection with regulated activities*

14.14 By aligning liquidity requirements more closely with the risks taken by individual firms, we are promoting the development of strong risk-management techniques including match funding and reductions in asset-liability mismatches, which should improve the efficiency of liquidity usage. This should also facilitate innovation, both for risk management and product development.

*International character of financial services and markets, and the desirability of maintaining the competitive position of the UK*

14.15 Our liquidity regime aims to raise standards for liquidity risk management across the board, thereby significantly increasing the overall resilience of UK firms to liquidity crises. Firms should demand that their competitors have strong liquidity standards that equal their own because the weakest link could precipitate a crisis.

14.16 We are determined to continue with our implementation timetable as we consider improving the liquidity standards in the UK as an immediate necessity. Although the requirements are more onerous, the improved robustness of UK liquidity standards will ultimately improve the competitiveness of the UK.

14.17 We believe that the potential initial reduction in the competitive position of the UK will be more than offset by these benefits. Not only will the regime improve the strength and resilience of UK institutions, but our proposed reporting requirements will enable us to ensure that firms are adhering to our high standards for liquidity risk management. We believe that this will significantly improve confidence in the UK financial system, which will lead to a range of long-term benefits for our firms and their customers. The CBA in Chapter 13 outlines the benefits of the regime.

14.18 The liquidity requirements are based on the Basel Committee on Banking Supervision's (BCBS) *Principles for Sound Liquidity Risk Management and Supervision*, published in June 2008. The principles are a global standard for liquidity risk management – we envisage that other jurisdictions will incorporate the principles to improve the resilience of firms they supervise, at least in part. We are actively supporting the delivery of greater regulatory consistency globally and in Europe.

### *Desirability of facilitating competition*

14.19 The overall effect of our enhanced liquidity risk standards should be a more risk-sensitive approach and the promotion of good liquidity risk management. This, in turn, should facilitate more effective competition.

### *The most appropriate way for us to meet our regulatory objectives*

14.20 The final policy outlined here follows months of consultation and work to ascertain whether this is the most appropriate way to meet our regulatory objectives. Our proposals are robust; indeed, many institutions will have to reshape their business models significantly over the next few years. However, we feel confident that we have designed a regime that will improve the resilience of the UK financial system. The final policy incorporates feedback from industry and our tripartite partners, and considers the impact of our requirements as outlined in our CBA.

14.21 This PS outlines our final decisions on the policy choices that were discussed in our recent consultation papers, and our reasons for choosing them.

# Legal Instrument

# PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND INVESTMENT FIRMS (LIQUIDITY) INSTRUMENT 2009

## Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power);
(2) section 149 (Evidential provisions);
(3) section 150(2) (Actions for damages);
(4) section 156 (General supplementary powers); and
(5) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

## Commencement

C. This instrument comes into force on 1 December 2009.

## Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex B to this instrument.

F. The Senior Management Arrangements, Systems and Controls sourcebook (SYSC) is amended in accordance with Annex C to this instrument.

## Notes

G. In Annex B to this instrument, the "notes" (indicated by "**Note:**") are included for the convenience of readers but do not form part of the legislative text.

## Citation

H. This instrument may be cited as the Prudential Sourcebook for Banks, Building Societies and Investment Firms (Liquidity) Instrument 2009.

By order of the Board
30 September 2009

## Annex A

## Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is all new and is not underlined.

| | |
|---|---|
| *buffer securities restriction* | *BIPRU* 12.6.16R. |
| *designated money market fund* | (in *BIPRU* 12) a *collective investment scheme* authorised under the *UCITS Directive* or which is subject to supervision and, if applicable, authorised by an authority under the national law of an *EEA State*, and which satisfies the following conditions:<br>(a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;<br>(b) it must, with a view to achieving that primary investment objective, invest exclusively in either or both assets (i) of the kind mentioned in *BIPRU* 12.7.2R(1) and (2), or (ii) sight deposits with *credit institutions* that are at all times fully secured against assets of the kind mentioned in *BIPRU* 12.7.2R(1) and (2);<br>(c) it must, for the purpose of condition (b), only count assets with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 60 days;<br>(d) it must, for the purpose of condition (b), ensure that if it invests in sight deposits with *credit institutions* of the kind mentioned in (b)(ii), no more than 20% of those deposits are held with any one body; and<br>(e) it must provide liquidity through same day settlement in respect of any request for redemption made at or before 1500 hours GMT or, as the case may be, BST. |
| *designated multilateral development bank* | Any of the following:<br>(a) African Development Bank;<br>(b) Asian Development Bank;<br>(c) Council of Europe Development Bank;<br>(d) European Bank for Reconstruction and Development;<br>(e) European Investment Bank; |

| | |
|---|---|
| | (f) Inter-American Development Bank; |
| | (g) International Bank for Reconstruction and Development; |
| | (h) International Finance Corporation; |
| | (i) Islamic Development Bank; and |
| | (j) Nordic Investment Bank. |
| *exempt full scope BIPRU investment firm* | a *full scope BIPRU investment firm* falling into *BIPRU* 12.1.4R. |
| *ILAA* | *Individual Liquidity Adequacy Assessment*. |
| *ILAS* | *Individual Liquidity Adequacy Standards*. |
| *ILAS BIPRU firm* | a *firm* falling into *BIPRU* 12.1.1R, but excluding a *firm* that is: |
| | (a) an *exempt full scope BIPRU investment firm*; or |
| | (b) a *BIPRU limited licence firm*; or |
| | (c) a *BIPRU limited activity firm*; or |
| | (d) an *exempt BIPRU commodities firm*. |
| *ILSA* | *Individual Liquidity Systems Assessment.* |
| *Individual Liquidity Adequacy Assessment* | a *standard ILAS BIPRU firm's* assessment of the adequacy of its liquidity resources and systems and controls as required by the *rules* in *BIPRU* 12.5. |
| *Individual Liquidity Adequacy Standards* | the regime of liquidity assessment set out in the *rules* and *guidance* in *BIPRU* 12.5. |
| *individual liquidity guidance* | *guidance* given to a *firm* about the amount, quality and funding profile of liquidity resources that the *FSA* has asked the *firm* to maintain. |
| *Individual Liquidity Systems Assessment* | a *simplified ILAS BIPRU firm's* assessment of the adequacy of its systems and controls as required by the *rules* in *BIPRU* 12.6. |
| *intra-group liquidity modification* | a modification to the *overall liquidity adequacy rule* of the kind described in *BIPRU* 12.8.7G. |
| *non-ILAS BIPRU firm* | a *firm* falling into *BIPRU* 12.1.1R which is not an *ILAS BIPRU firm*. |
| *overall liquidity adequacy rule* | *BIPRU* 12.2.1R. |
| *simplified ILAS* | the approach to the calculation of the liquid assets buffer of a |

| | |
|---|---|
| | *simplified ILAS BIPRU firm* described in *BIPRU* 12.6. |
| *simplified ILAS waiver* | a *waiver* permitting an *ILAS BIPRU firm* to operate *simplified ILAS*. |
| *SLRP* | the *Supervisory Liquidity Review Process*. |
| *simplified buffer requirement* | *BIPRU* 12.6.9R. |
| *Supervisory Liquidity Review Process* | the *FSA's* assessment of the adequacy of certain *firms'* liquidity resources as described in *BIPRU* 12.2 and *BIPRU* 12.5. |
| *UK ILAS BIPRU firm* | an *ILAS BIPRU firm* which has its registered office (or, if it does not have a registered office, its head office) in the *United Kingdom*. |
| *whole-firm liquidity modification* | a modification to the *overall liquidity adequacy rule* of the kind described in *BIPRU* 12.8.22G. |

# Annex B

## Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

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

After BIPRU 11, insert the following new chapter.

### 12 Liquidity standards

### 12.1 Application

12.1.1 R Subject to *BIPRU* 12.1.2R, *BIPRU* 12 applies to:

(1) a *BIPRU firm*;

(2) an *incoming EEA firm* which:

(a) is a *full BCD credit institution*; and

(b) has a *branch* in the *United Kingdom*; and

(3) a *third country BIPRU firm* which:

(a) is a *bank*; and

(b) has a *branch* in the *United Kingdom*.

12.1.2 R *BIPRU* 12.5 (Individual Liquidity Adequacy Standards), *BIPRU* 12.6 (Simplified ILAS), *BIPRU* 12.7 (Liquid assets buffer) and *BIPRU* 12.9 (Individual liquidity guidance and regulatory intervention points) apply only to an *ILAS BIPRU firm*.

12.1.3 G A *firm* that is an *exempt full scope BIPRU investment firm* is not an *ILAS BIPRU firm*.

12.1.4 R (1) An *exempt full scope BIPRU investment firm* is a *full scope BIPRU investment firm* that at all times has total net assets which are less than or equal to £50 million.

(2) In this *rule*, total net assets are the sum of a *firm's* total *trading book* assets and its total *non-trading book* assets, less the sum of its called up share capital, reserves and minority interests.

(3) For the purpose of (2), the value attributed to each of the specified balance sheet items must be that which is reported to the *FSA* in the *firm's* most recent FSA001 *data item*.

12.1.5 G The effect of *BIPRU* 12.1.4R is therefore to require the *firm* to sum the values of cell entries 20A and 20B in *data item* FSA001 and deduct from that total the sum of the values of cell entries 42, 43 and 44 in the same *data item*.

12.1.6 G There are some provisions in other sections of *BIPRU* 12 which apply only to an *ILAS BIPRU firm*. Where this is the case, the provision in question says so.

12.1.7 R In relation to an *incoming EEA firm* or a *third country BIPRU firm*, this chapter applies only with respect to the activities of the *firm's UK branch*.

## 12.2 Adequacy of liquidity resources

The overall liquidity adequacy rule

12.2.1 R (1) A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

(2) For the purpose of (1):

(a) a *firm* may not include liquidity resources that can be made available by other members of its *group*;

(b) an *incoming EEA firm* or a *third country BIPRU firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in *BIPRU* 12.2.3R;

(c) a *firm* may not include liquidity resources that may be made available through emergency liquidity assistance from a central bank (including the European Central Bank).

12.2.2 G *BIPRU* 12.2.1R is the *overall liquidity adequacy rule*.

Branch liquidity resources

12.2.3 R The conditions to which *BIPRU* 12.2.1R(2)(b) refers are that the *firm's* liquidity resources are:

(1) under the day-to-day control of the *UK branch's* senior management;

(2) held in an account with one or more *custodians* in the sole name of the *UK branch*;

(3) unencumbered; and

(4) for the purpose of the *overall liquidity adequacy rule* only, attributed to the balance sheet of the *UK branch*.

12.2.4 G The effect of *BIPRU* 12.2.1R(2)(b) and *BIPRU* 12.2.3R is to require an *incoming EEA firm* or a *third country BIPRU firm* to maintain a local operational liquidity reserve in relation to the activities of its *UK branch*. *BIPRU* 12.9 contains further *guidance* on this point.

Liquidity resources: general

12.2.5 G For the purposes of the *overall liquidity adequacy rule*, liquidity resources are not confined to the amount or value of a *firm's* marketable, or otherwise realisable, assets. Rather, in assessing the adequacy of those resources, a *firm* should have regard to the overall character of the resources available to it which enable it to meet its liabilities as they fall due. Therefore, for the purposes of that *rule*, a *firm* should ensure that:

(1) it holds sufficient assets which are marketable, or otherwise realisable;

(2) it is able to generate funds from those assets in a timely manner;

(3) it maintains a prudent funding profile in which its assets are of appropriate maturities, taking account of the expected timing of that *firm's* liabilities; and

(4) it is able to generate unsecured funding of appropriate tenor in a timely manner.

12.2.6 G The *overall liquidity adequacy rule* is expressed to apply to each *firm* on a solo basis. Each *firm* must be able to satisfy that *rule* relying solely on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or a *third country BIPRU firm*, compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in *BIPRU* 12.2.3R.

12.2.7 G The starting point, therefore, is that each *firm*, or where relevant its *UK branch*, must be self-sufficient in terms of its own liquidity adequacy. The *FSA* does, however, recognise that there are circumstances in which it may be appropriate for a *firm* or *branch* to rely on liquidity support provided by other entities in its *group* or from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind, whether for itself or for its *UK branch*, may only do so with the consent of the *FSA*, given by way of a *waiver* under section 148 (Modification or waiver of rules) of the *Act* to the *overall liquidity adequacy rule*.

Liquid assets buffer and funding profile

12.2.8 R For the purposes of the *overall liquidity adequacy rule*, an *ILAS BIPRU firm* must also ensure that:

(1) its liquidity resources contain an adequate buffer of high quality, unencumbered assets; and

(2) it maintains a prudent funding profile.

12.2.9 G The purpose of *BIPRU* 12.2.8R is to ensure that an *ILAS BIPRU firm* has a buffer of liquid assets which are available to meet those liabilities which fall due in periods of stress experienced by that *firm*. Those periods of stress may be both market-wide and idiosyncratic in nature. The *FSA* acknowledges that in periods of stress a *firm's* liquid assets buffer may be eroded.

12.2.10 G The *FSA* recognises, however, that it may take time for a *firm* to build a buffer which is of a sufficient size and quality to help reduce the effect of periods of stress on the *firm*. In particular, the *FSA* recognises that the transition from the *FSA's* liquidity regime in force immediately prior to the *BIPRU* 12 regime is likely to be a gradual one for many *firms*. The *FSA* will seek to agree with a *firm* an appropriate period of time over which its liquid assets buffer ought to be built. The *FSA* will, in any event, incorporate into the *individual liquidity guidance* which it gives to the *firm* details of the steps that it expects the *firm* to take so that it may establish an appropriately robust liquid assets buffer.

12.2.11 R In complying with *BIPRU* 12.2.8R, a *simplified ILAS BIPRU firm* must ensure that its liquid assets buffer is at least equal to the amount of liquidity resources required by the *simplified buffer requirement*.

12.2.12 G The *FSA* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of *BIPRU* 12.2.8R. Further *guidance* on this matter is provided in *BIPRU* 12.6.5G.

12.2.13 G *BIPRU* 12.7 contains more detailed *rules* and *guidance* about the type of assets that an *ILAS BIPRU firm* is permitted to hold in order to satisfy *BIPRU* 12.2.8R.

Individual assessments of liquidity adequacy

12.2.14 G The adequacy of an *ILAS BIPRU firm's* liquidity resources needs to be assessed both by that *firm* and by the *FSA*. This process involves:

(1) in the case of a *standard ILAS BIPRU firm*, an *Individual Liquidity Adequacy Assessment* (*ILAA*) which such a *firm* is obliged to carry out in accordance with *BIPRU* 12.5;

(2) in the case of a *simplified ILAS BIPRU firm*, an *Individual Liquidity Systems Assessment* (*ILSA*) which such a *firm* is obliged

to carry out in accordance with *BIPRU* 12.6; and

(3) a *Supervisory Liquidity Review Process* (*SLRP*), which is conducted by the *FSA*.

12.2.15 G *BIPRU* 12.5 sets out the *ILAS* framework. That section describes some of the stress tests that a *standard ILAS BIPRU firm* must carry out in conducting its *ILAA* and identifies a number of sources of *liquidity risk* in relation to which a *firm* is required to assess the impact of those stresses. For a *standard ILAS BIPRU firm*, the requirements in *BIPRU* 12.5 are in addition to the stress testing requirements in *BIPRU* 12.4. The *rules* in *BIPRU* 12.5 require a *standard ILAS BIPRU firm* to report the results of both sets of stress tests in its *ILAA*, while the *rules* in *BIPRU* 12.6 require a *simplified ILAS BIPRU firm* to report those results in its *ILSA*.

12.2.16 G As part of its *SLRP*, the *FSA* will, having regard to the *liquidity risk* profile of the *firm*, consider:

(1) the adequacy, both as to amount and quality, of the liquidity resources (including the liquid assets buffer) held by the *firm*; and

(2) the degree of prudence reflected in the *firm's* funding profile.

12.2.17 G In assessing the adequacy of those resources, the *FSA* will consider a *firm's* overall ability to generate funding in a way that ensures that it can meet its liabilities as they fall due both in stressed and in ordinary business conditions.

12.2.18 G After completing a review of the *ILAA* as part of the *SLRP*, the *FSA* will give a *standard ILAS BIPRU firm individual liquidity guidance*, advising it of the amount and quality of liquidity resources which the *FSA* considers are appropriate having regard to the *liquidity risk* profile of the *firm*. In giving *individual liquidity guidance*, the *FSA* will also advise the *firm* of what it considers to be a prudent funding profile for the *firm*. In giving the *firm individual liquidity guidance* as to its funding profile, the *FSA* will consider the extent to which the *firm's* liabilities are adequately matched by assets of appropriate maturities. Although the *FSA* may have given a *firm individual liquidity guidance*, this does not remove the need for the *firm* to monitor its *liquidity risk* profile on an ongoing basis and to consider whether it should be holding liquidity resources that are greater in amount or higher in quality, or maintaining a more prudent funding profile, than those advised in its *individual liquidity guidance*.

12.2.19 G *BIPRU* 12.5 sets out in greater detail the *FSA*'s *ILAS* regime. *BIPRU* 12.9 sets out in greater detail the *FSA*'s process for issuing an *ILAS BIPRU firm* with *individual liquidity guidance* and its approach to monitoring a *firm's* adherence to that *guidance* or, as the case may be, to the *simplified buffer requirement*.

## 12.3 Liquidity risk management

12.3.1 G The approach taken in *BIPRU* 12.3 is to set out:

(1) overarching systems and controls provisions in relation to a *firm's* management of its *liquidity risk*;

(2) provisions outlining the responsibilities of that *firm's governing body* and *senior managers* for the oversight of *liquidity risk*;

(3) more detailed provisions covering a number of specific areas, including:

(a) pricing *liquidity risk*;

(b) intra-day management of liquidity;

(c) management of collateral;

(d) management of liquidity across legal entities, business lines and currencies; and

(e) funding diversification and market access.

12.3.2 G *BIPRU* 12.4 contains further *rules* and *guidance* on stress testing and *contingency funding plans*. These are both extensions of the overarching systems and controls provisions in *BIPRU* 12.3. In formulating the *rules* and *guidance* in these two sections, the *FSA* has taken account of the "Principles for Sound Liquidity Management and Supervision" dated September 2008 issued by the Basel Committee on Banking Supervision. It is intended that the content of *BIPRU* 12.3 and *BIPRU* 12.4 be consistent with those Principles.

12.3.3 G *BIPRU* 12.5.4R provides that, in relation to a *standard ILAS BIPRU firm*, it must include in its *ILAA* an assessment of its compliance with the standards set out in *BIPRU* 12.3 and *BIPRU* 12.4, including the results of the stress tests required by the *rules* in *BIPRU* 12.4. A *simplified ILAS BIPRU firm* is not subject to *BIPRU* 12.5 and consequently it is not required to prepare an *ILAA*. Instead, the *rules* in *BIPRU* 12.6 provide that such a *firm* is to carry out an *ILSA*, being alone an assessment of that *firm's* compliance with the standards set out in *BIPRU* 12.3 and *BIPRU* 12.4.

Overarching liquidity systems and controls requirements

12.3.4 R A *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk*, including those which enable it to assess and maintain on an ongoing basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:

(1) the nature and level of the *liquidity risk* to which it is or might be exposed;

(2) the risk that the *firm* cannot meet its liabilities as they fall due; and

(3) in the case of an *ILAS BIPRU firm*, the risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources advised as appropriate by the *FSA* in that *firm's individual liquidity guidance* or, as the case may, its *simplified buffer requirement*.

12.3.5 R The strategies, policies, processes and systems required by *BIPRU* 12.3.4R must be comprehensive and proportionate to the nature, scale and complexity of a *firm's* activities.

12.3.6 E (1) A *firm* should ensure that it has in place a robust framework to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items.

(2) A *firm* should ensure that its strategies, policies, processes and systems in relation to *liquidity risk* support the *liquidity risk* tolerance established by its *governing body* in accordance with *BIPRU* 12.3.8R.

(3) A *firm* should ensure that its strategies, policies, processes and systems in relation to *liquidity risk* enable it to identify, measure, manage and monitor its *liquidity risk* positions for:

(a) all sources of contingent liquidity demand (including those arising from off-balance sheet activities);

(b) all currencies in which that *firm* is active; and

(c) correspondent, custody and settlement activities.

(4) A *firm* should ensure that it sets limits to control its *liquidity risk* exposure within and across lines of business and legal entities.

(5) A *firm* should ensure that it has in place early warning indicators to identify immediately the emergence of increased *liquidity risk* or vulnerabilities, including indicators that signal whether embedded triggers in funding or security arrangements such as warranties, covenants, events of default, conditions precedent or terms having similar effect are likely to, or will, be breached, occur or fail to be satisfied, or contingent risks will or are likely to crystallise, in either case with the result that access to liquidity resources may be impaired.

(6) A *firm* should ensure that it has in place reliable management information systems to provide its *governing body*, *senior*

*managers* and other appropriate personnel with timely and forward-looking information on the liquidity position of the *firm*.

(7) Contravention of any of (1) to (6) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

12.3.7 G As well as the *rules* in *BIPRU* 12.3 requiring a *firm* to have robust systems to enable it to identify, measure, manage and monitor *liquidity risk*, an *ILAS BIPRU firm* is also subject to obligations in *SUP* 16 (Reporting requirements) requiring it to report quantitative data about its liquidity position to the *FSA*. That chapter of *SUP* sets out the applicable *data items* and the *rules* governing the frequency of their submission to the *FSA*. Absent a *firm-specific liquidity stress* or a *market liquidity stress*, the *rules* in *SUP* 16 do not require daily reporting of *data items*. An *ILAS BIPRU firm* should, however, note that those *rules* do require that it has systems in place to ensure that it is able at all times to meet the requirements for daily reporting of applicable *data items* even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Governing body and senior management oversight: liquidity risk tolerance

12.3.8 R A *firm* must ensure that:

(1) its *governing body* establishes that *firm's liquidity risk* tolerance and that this is appropriately documented; and

(2) its *liquidity risk* tolerance is appropriate for its business strategy and reflects its financial condition and funding capacity.

12.3.9 G As part of the *SLRP*, the *FSA* will assess the appropriateness of the *liquidity risk* tolerance adopted by an *ILAS BIPRU firm* to ensure that this risk tolerance is consistent with maintenance by the *firm* of adequate liquidity resources for the purpose of the *overall liquidity adequacy rule*. The *FSA* will expect a *firm* to provide it with an adequately reasoned explanation for the level of *liquidity risk* which that *firm's governing body* has decided it should assume. In assessing the appropriateness of the *liquidity risk* tolerance adopted by a *firm*, the *FSA* will consider whether the tolerance adopted is consistent with the *firm's* satisfaction of *threshold condition* 5 (*COND* 2.5.7G(6)). Consistent with the *FSA's* statutory objectives under the *Act*, in assessing the appropriateness of a *firm's* adopted *liquidity risk* tolerance the *FSA* will also have regard to the role and importance of a *firm* in the *financial system*.

Governing body and senior management oversight: approval and review of arrangements

12.3.10 R A *firm* must ensure that its *governing body* approves the *firm's* strategies, policies, processes and systems relating to the management of *liquidity risk*, including those described in *BIPRU* 12.3.4R.

12.3.11 R A *firm* must ensure that its *governing body* reviews regularly (and not less frequently than annually):

(1) the continued adequacy of any strategies, policies, processes and systems approved in accordance with *BIPRU* 12.3.10R; and

(2) the *firm's liquidity risk* tolerance.

12.3.12 R A *firm* must ensure that its *senior managers*:

(1) continuously review that *firm's* liquidity position, including its compliance with the *overall liquidity adequacy rule*; and

(2) report to its *governing body* on a regular basis adequate information as to that *firm's* liquidity position and its compliance with the *overall liquidity adequacy rule* and with *BIPRU* 12.3.4R.

12.3.13 G Although a *firm's senior managers* are likely to develop strategies, policies and practices for the management of that *firm's liquidity risk*, it is the responsibility of a *firm's governing body* to approve those strategies, policies and practices as adequate. In determining the adequacy of those strategies, policies and practices, a *firm's governing body* should have regard to that *firm's liquidity risk* tolerance established in accordance with *BIPRU* 12.3.8R.

12.3.14 G The *FSA* will assess the adequacy of an *ILAS BIPRU firm's liquidity risk* management framework as part of the *SLRP*.

Pricing liquidity risk

12.3.15 E (1) In relation to all significant business activities, a *firm* should ensure that it accurately quantifies liquidity costs, benefits and risks and fully incorporates them into:

(a) product pricing;

(b) performance measurement and incentives; and

(c) the approval process for new products.

(2) For the purposes of (1), a *firm* should ensure that it:

(a) includes significant business activities whether or not they are accounted for on-balance sheet; and

(b) carries out the exercise of quantification and incorporation both in normal financial conditions and under the stresses required by *BIPRU* 12.4.1R.

(3) A *firm* should ensure that the liquidity costs, benefits and risks are clearly and transparently attributed to business lines and are

understood by business line management.

(4) Contravention of any of (1), (2) or (3) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

12.3.16 G The incorporation of liquidity pricing into a *firm's* processes assists in aligning the risk-taking incentives of individual business lines within that *firm* with the *liquidity risk* to which the *firm* as a whole is exposed as a result of their activities. It is important that all significant business activities are addressed, including activities which involve the creation of contingent exposures which may not have an immediate balance sheet impact.

Intra-day management of liquidity

12.3.17 R A *firm* must actively manage its intra-day liquidity positions and any related risks so that it is able to meet its payment and settlement obligations on a timely basis.

12.3.18 G In complying with *BIPRU* 12.3.17R, a *firm* should take into account all obligations arising from its acting as a custodian, a correspondent bank or a settlement agent.

12.3.19 R For the purposes of *BIPRU* 12.3.17R, a *firm* must ensure that:

(1) it is able to meet its payment and settlement obligations on a timely basis under both normal financial conditions and under the stresses required by *BIPRU* 12.4.1R; and

(2) its arrangements for the management of intra-day liquidity enable it to identify and prioritise the most time-critical payment and settlement obligations.

12.3.20 G The *FSA* considers that a *firm's* ability to meet its payment and settlement obligations on an intra-day basis is important not just for that *firm*, but also for the liquidity position of that *firm's* counterparties and for the smooth functioning of payment and settlement systems as a whole.

12.3.21 E (1) A *firm* should ensure that its intra-day liquidity management arrangements enable it, in relation to the markets in which it is active and the currencies in which it has significant positions, to:

(a) measure expected daily gross liquidity inflows and outflows, anticipate the intra-day timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;

(b) monitor its intra-day liquidity positions against expected activities and available resources;

(c) identify gross liquidity inflows and outflows attributable to any correspondent, custodian or settlement agency services provided by that *firm*;

(d) manage the timing of its liquidity outflows such that priority is given to that *firm's* most time-critical obligations;

(e) deal with unexpected disruptions to its intra-day liquidity flows;

(f) acquire sufficient intra-day funding such that it is able to meet its most time-critical obligations when expected and other less time-critical obligations as soon as possible thereafter; and

(g) manage and mobilise collateral as necessary for the purposes of achieving the aim in (f).

(2) Contravention of any of (1)(a) to (g) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

Management of collateral

12.3.22 R A *firm* must actively manage its collateral positions.

12.3.23 R For the purposes of *BIPRU* 12.3.22R, a *firm* must, in relation to all currencies in which it has significant positions and all jurisdictions in which it carries on significant business activities, ensure that it:

(1) can calculate all of its collateral positions, including assets currently provided as collateral, relative to the total amount of security required;

(2) can calculate the amount of unencumbered assets available to it to be provided as collateral;

(3) can mobilise collateral in a timely manner;

(4) monitors the location of available collateral;

(5) takes into account the extent to which counterparties with which it has deposited collateral may have re-hypothecated that collateral;

(6) has access to adequately diversified sources of collateral;

(7) assesses the eligibility of each major asset class that it holds for use as collateral with central banks;

(8) assesses on an ongoing basis the acceptability of its assets to major counterparties and providers of funds in secured funding

markets; and

(9) monitors and manages the impact that the terms of existing funding or security arrangements, such as warranties, covenants, events of default, negative pledges and cross default clauses could have on its ability to mobilise collateral including for use in borrowing under any central bank facility (in particular, emergency liquidity assistance on a secured basis).

12.3.24 G For the purposes of *BIPRU* 12.3.23R(8) and (9), a *firm* should take into account the impact of the stresses that it conducts under *BIPRU* 12.4.1R on the requirements which may be imposed on the provision of its assets as collateral (for example, haircuts) and also the availability of funds from private counterparties during such periods of stress.

12.3.25 E (1) A *firm* should ensure that its arrangements for the management of *liquidity risk*:

(a) enable it to monitor shifts between intra-day and overnight or term collateral usage;

(b) enable it to appropriately adjust its calculation of available collateral to account for assets that are part of a “tied hedge”;

(c) include adequate consideration of the potential for uncertainty around, or disruption to, intra-day asset flows; and

(d) take into account the potential for additional collateral requirements under the terms of contracts governing existing collateral positions (for example, as a result of a deterioration in its own credit rating).

(2) Contravention of any of (1)(a) to (d) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

Managing liquidity across legal entities, business lines and currencies

12.3.26 R In complying with *BIPRU* 12.3.4R, a *firm* must ensure that:

(1) it actively manages its *liquidity risk* exposures and related funding needs; and

(2) it takes into account:

(a) the impact on its own liquidity position of its forming part of a *group*;

(b) the need to manage the liquidity position of individual business lines in addition to that of the *firm* as a whole;

and

(c) the *liquidity risk* arising from its taking positions in foreign currencies; and

(3) where it forms part of a *group*, it understands and has regard to any legal, regulatory, operational or other constraints on the transferability to it of funds and collateral by other entities in that *group*.

12.3.27 R A *firm* must have policies and processes for the measurement and management of its net funding position and requirements on an ongoing and forward looking basis. Alternative scenarios must be considered and the assumptions underpinning decisions concerning the net funding position must be reviewed regularly.

[**Note:** annex V paragraph 14 of the *Banking Consolidation Directive*]

12.3.28 G In its *liquidity risk* management plans, a *firm* should identify clearly its assumptions regarding the transferability of funds and collateral. A *firm* should expect that the *FSA* will scrutinise those assumptions.

Funding diversification and market access

12.3.29 R In complying with *BIPRU* 12.3.4R, a *firm* must ensure that it has access to funding which is adequately diversified, both as to source and tenor.

12.3.30 R A *firm* must ensure that its *governing body*:

(1) is aware of the composition, characteristics and degree of diversification of its assets and funding sources; and

(2) regularly reviews its funding strategy in the light of any changes in the environment in which it operates.

12.3.31 G Funding diversification should not be considered an end in its own right. Rather, the purpose of diversification is to ensure that a *firm* has in place alternative sources of funding that strengthen its capacity to withstand a variety of severe yet plausible institution-specific and market-wide liquidity shocks.

12.3.32 E (1) A *firm* should ensure that funding diversification is taken into account in that *firm's* business planning process.

(2) A *firm* should ensure that its funding arrangements take into account correlations between market conditions and the ability to access funds from different sources.

(3) A *firm* should ensure that in establishing adequate diversification it sets limits on its funding according to the following variables:

(a) maturity;

(b) nature of depositor or counterparty;

(c) levels of secured and unsecured funding;

(d) instrument type;

(e) securitisation vehicle;

(f) currency; and

(g) geographic market.

(4) A *firm* should ensure that it maintains an ongoing presence in its chosen funding markets and strong relationships with its chosen providers of funds.

(5) A *firm* should regularly test its capacity to raise funds quickly from its chosen funding sources to provide short, medium and long-term liquidity.

(6) A *firm* should ensure that its *senior managers* identify the main factors that affect its ability to raise funds and should monitor those factors closely to ensure that their estimates of fund raising capacity remain valid.

(7) Contravention of any of (1) to (6) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

## 12.4 Stress testing and contingency funding

Stress testing

12.4.1 R In order to ensure compliance with the *overall liquidity adequacy rule* and with *BIPRU* 12.3.4R, a *firm* must:

(1) conduct on a regular basis appropriate stress tests so as to:

(a) identify sources of potential liquidity strain;

(b) ensure that current liquidity exposures continue to conform to the *liquidity risk* tolerance established by that *firm's governing body*; and

(c) identify the effects on that *firm's* assumptions about pricing; and

(2) analyse the separate and combined impact of possible future liquidity stresses on its:

(a) cash flows;

(b) liquidity position;

(c) profitability; and

(d) solvency.

12.4.2 R In accordance with *BIPRU* 12.3.11R, a *firm* must ensure that its *governing body* reviews regularly the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant to that *firm*.

12.4.3 G Consistent with *BIPRU* 12.3.5R, the *FSA* expects that the extent and frequency of such testing, as well as the degree of regularity of *governing body* review under *BIPRU* 12.4.2R, should be proportionate to the nature scale and complexity of a *firm's* activities, as well as to the size of its *liquidity risk* exposures. Consistent with the *FSA's* statutory objectives under the *Act*, in assessing the adequacy of a *firm's* stress testing arrangements (including their frequency and the regularity of *governing body* review) the *FSA* will also have regard to the role and importance of that *firm* in the *financial system*. The *FSA* will, however, expect stress testing and *governing body* review to be carried out no less frequently than annually. The *FSA* expects that a *firm* will build into its stress testing arrangements the capability to increase the frequency of those tests in special circumstances, such as in volatile market conditions or where requested by the *FSA*.

12.4.4 G For the purposes of *BIPRU* 12.4.2R, a review should take into account:

(1) changes in market conditions;

(2) changes in the nature, scale or complexity of the *firm's* business model and activities; and

(3) the *firm's* practical experience in periods of stress.

12.4.5 E (1) In designing its stress tests, a *firm* should in particular ensure that it considers:

(a) short-term and protracted stress scenarios;

(b) institution-specific and market-wide stress scenarios; and

(c) combinations of (a) and (b).

(2) Contravention of any of (1)(a) to (c) may be relied upon as tending to establish contravention of *BIPRU* 12.4.1R.

12.4.6 G The *FSA* expects every *firm*, including a *firm* with an apparently strong liquidity profile, to consider the potential impact of severe stress scenarios.

12.4.7 G In conducting its stress testing, a *firm* should also, where relevant, consider the impact of its chosen stresses on the appropriateness of its assumptions relating to:

(1) correlations between funding markets;

(2) the effectiveness of diversification across its chosen sources of funding;

(3) additional margin calls and collateral requirements;

(4) contingent claims, including potential draws on committed lines extended to third parties or to other entities in that *firm's group*;

(5) liquidity absorbed by off-balance sheet vehicles and activities (including conduit financing);

(6) the transferability of liquidity resources;

(7) access to central bank market operations and liquidity facilities;

(8) estimates of future balance sheet growth;

(9) the continued availability of market liquidity in a number of currently highly liquid markets;

(10) ability to access secured and unsecured funding (including retail *deposits*);

(11) currency convertibility; and

(12) access to payment or settlement systems on which the *firm* relies.

12.4.8 E (1) A *firm* should ensure that the results of its stress tests are:

(a) reviewed by its *senior managers*;

(b) reported to that *firm's governing body*, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action;

(c) reflected in the processes, strategies and systems established in accordance with *BIPRU* 12.3.4R;

(d) used to develop effective *contingency funding plans*;

(e) integrated into that *firm's* business planning process and day-to-day risk management; and

(f) taken into account when setting internal limits for the management of that *firm's liquidity risk* exposure.

(2) Contravention of any of (1)(a) to (f) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

12.4.9 R A *firm* must ensure that the results of its stress tests are reported to the *FSA* in a timely manner.

Contingency funding plans

12.4.10 R A *firm* must have an adequate *contingency funding plan* in place to deal with liquidity crises.

[**Note:** annex V paragraph 15 of the *Banking Consolidation Directive*]

12.4.11 R In complying with *BIPRU* 12.4.10R, a *firm* must ensure that its *contingency funding plan* has been approved by its *governing body*.

12.4.12 G A *contingency funding plan* sets out a *firm's* strategies for addressing liquidity shortfalls in emergency situations. Its aim should be to ensure that, in each of the stresses required by *BIPRU* 12.4.1R, it would still have sufficient liquidity resources to ensure that it can meet its liabilities as they fall due.

12.4.13 R A *firm* must ensure that its *contingency funding plan*:

(1) outlines strategies, policies and plans to manage a range of stresses;

(2) establishes a clear allocation of roles and clear lines of management responsibility;

(3) is formally documented;

(4) includes clear invocation and escalation procedures;

(5) is regularly tested and updated to ensure that it remains operationally robust;

(6) outlines how that *firm* will meet time-critical payments on an intra-day basis in circumstances where intra-day liquidity resources become scarce;

(7) outlines that *firm's* operational arrangements for managing a retail funding run;

(8) in relation to each of the sources of funding identified for use in emergency situations, is based on a sufficiently accurate assessment of:

(a) the amount of funding that can be raised from that source; and

(b) the time needed to raise funding from that source;

(9) is sufficiently robust to withstand simultaneous disruptions in a range of payment and settlement systems;

(10) outlines how that *firm* will manage both internal communications and those with its external stakeholders; and

(11) establishes mechanisms to ensure that the *firm's governing body* and *senior managers* receive management information that is both relevant and timely.

12.4.14 E (1) In designing a *contingency funding plan* a *firm* should ensure that it takes into account:

(a) the impact of stressed market conditions on its ability to sell or securitise assets;

(b) the impact of extensive or complete loss of typically available market funding options;

(c) the financial, reputational and any other additional consequences for that *firm* arising from the execution of the *contingency funding plan* itself;

(d) its ability to transfer liquid assets having regard to any legal, regulatory or operational constraints; and

(e) its ability to raise additional funding from central bank market operations and liquidity facilities.

(2) Contravention of any of (1)(a) to (e) may be relied upon as tending to establish contravention of *BIPRU* 12.3.4R.

12.4.15 G A *firm* should ensure that its *contingency funding plan* takes into account the terms and conditions of any central bank liquidity facilities to which it has access, including both facilities that form part of normal liquidity management operations and emergency liquidity assistance on a secured basis. Where a *firm* includes in its *contingency funding plan* the use of central bank liquidity facilities it should consider the nature of those facilities, collateral eligibility, haircuts to which its collateral might be subject, terms in its existing or available funding arrangements which might impact its ability to access central bank facilities, operational arrangements for accessing those facilities and the potential reputational consequences for that *firm* in accessing them. In formulating its *contingency funding plan*, a *firm* should not rely on expectations it may have about future changes to central bank facilities, either in relation to their normal liquidity management operations or in relation to the availability of specific liquidity facilities in exceptional circumstances.

## 12.5 Individual Liquidity Adequacy Standards

Individual Liquidity Adequacy Assessment

12.5.1 R This section applies to a *standard ILAS BIPRU firm*.

12.5.2 R A *firm* must carry out an individual liquidity adequacy assessment (*ILAA*) in accordance with this section.

12.5.3 G In conducting its *ILAA*, a *firm* is obliged to comply with the stress testing and related requirements which appear in this section. The *rules* in this section also provide that in its *ILAA* a *firm* must include an assessment of the *firm's* compliance with the standards set out in *BIPRU* 12.3 and *BIPRU* 12.4.

12.5.4 R A *firm* must ensure that:

(1) it regularly carries out an *ILAA*;

(2) it makes a written record of its *ILAA*;

(3) its *ILAA* is proportionate to the nature, scale and complexity of its activities;

(4) its *ILAA* takes into account whole-*firm* and *group*-wide liquidity resources only to the extent that reliance on these is permitted by the *FSA*;

(5) its *ILAA* includes an assessment of the results of the stress tests required by *BIPRU* 12.5.6R; and

(6) its *ILAA* includes an assessment of the *firm's* compliance with *BIPRU* 12.3 and *BIPRU* 12.4, including the results of the stress tests required by the *rules* in *BIPRU* 12.4.

12.5.5 G A *firm* should carry out an *ILAA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that its usual supervisory contact at the *FSA* will ask for the *ILAA* to be submitted as part of the ongoing supervisory process.

12.5.6 R A *firm* must ensure that in carrying out its *ILAA* it considers how that *firm's* liquidity resources change as a result of:

(1) the stress in *BIPRU* 12.5.8R (the "first liquidity stress");

(2) the stress in *BIPRU* 12.5.11R (the "second liquidity stress"); and

(3) the first and second liquidity stresses occurring simultaneously.

ILAA stresses

12.5.7 G The *FSA* will review the results of a *firm's ILAA*, including the results of the stress tests required by *BIPRU* 12.5.6R, as part of its *Supervisory Liquidity Review Process* (*SLRP*). The *FSA's* review of the stress test results will assist it assessing the adequacy of a *firm's* liquidity resources relative to other *ILAS BIPRU firms* and, consequently, in calibrating the *individual liquidity guidance* that it gives to that *firm*. *BIPRU* 12.9.2G sets out the *FSA's* approach to assessing the adequacy of a *firm's* liquidity resources and indicates that, among other factors, it will have regard to the *firm's ILAA*. It is not, therefore, the case that the amount of liquidity resources advised to the *firm* as being adequate in its *individual liquidity guidance* will necessarily equate to the amount needed to meet its liabilities as they fall due in the stresses required by *BIPRU* 12.5.6R. The *FSA* will assess the adequacy of a *firm's* liquidity resources on a case-by-case basis and, accordingly, the amount of liquidity resources judged as adequate in the *firm's individual liquidity guidance* might be either above or below the amount needed to survive the stresses required by *BIPRU* 12.5.6R.

First liquidity stress

12.5.8 R The first liquidity stress to which *BIPRU* 12.5.6R refers is an unforeseen, name-specific, liquidity stress in which:

(1) financial market participants and retail depositors consider that in the short-term the *firm* will be or is likely to be unable to meet its liabilities as they fall due;

(2) the *firm's* counterparties reduce the amount of intra-day credit which they are willing to extend to it;

(3) the *firm* ceases to have access to foreign currency spot and *swap* markets; and

(4) over the longer-term the *firm's* obligations linked to its credit rating crystallise as a result of a reduction in that credit rating.

12.5.9 R For the purpose of *BIPRU* 12.5.8R(1) to (3), a *firm* must assume that the initial, short-term, period of stress lasts for at least two weeks.

12.5.10 G For the purpose of *BIPRU* 12.5.8R(4), a *firm* should consider the effect of credit rating downgrades of varying degrees of severity. In doing so, it should also consider the cumulative effect of successive credit rating downgrades to its long-term credit rating.

Second liquidity stress

12.5.11 R The second liquidity stress to which *BIPRU* 12.5.6R refers is an unforeseen, market-wide liquidity stress of three *months'* duration.

12.5.12 R For the purpose of *BIPRU* 12.5.11R, a *firm* must assume that the second liquidity stress is characterised by:

(1) uncertainty as to the accuracy of the valuation attributed to that *firm's* assets and those of its counterparties;

(2) inability to realise, or ability to realise only at excessive cost, particular classes of assets, including those which represent claims on other participants in the financial markets or which were originated by them;

(3) uncertainty as to the ability of a significant number of *firms* to ensure that they can meet their liabilities as they fall due; and

(4) risk aversion among participants in the markets on which the *firm* relies for funding.

ILAA methodology

12.5.13 R In carrying out the liquidity stresses required by *BIPRU* 12.5.6R, a *firm* must:

(1) analyse each of the sources of risk identified in *BIPRU* 12.5.14R;

(2) record the evidence which supports any behavioural assumptions that it makes in carrying out those stress tests;

(3) record the evidence which supports its assessment of the adequacy of its liquid assets buffer; and

(4) identify those of the measures set out in its *contingency funding plan* that it would implement.

12.5.14 R The sources of risk referred to in *BIPRU* 12.5.13R are:

(1) wholesale secured and unsecured funding risk;

(2) retail funding risk;

(3) intra-day *liquidity risk*;

(4) intra-*group liquidity risk*;

(5) cross-currency *liquidity risk*;

(6) off-balance sheet *liquidity risk*;

(7) franchise-viability risk;

(8) marketable assets risk;

(9) non-marketable assets risk; and

(10) funding concentration risk.

Wholesale secured and unsecured funding risk

12.5.15 R For the purpose of assessing its wholesale funding risk, a *firm* must estimate the gross wholesale outflows that could occur under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.16 R In assessing its wholesale funding risk, a *firm* must:

(1) identify its wholesale liabilities;

(2) determine how those liabilities behave under normal financial conditions;

(3) assess how they will behave under the stresses required by *BIPRU* 12.5.6R; and

(4) divide its wholesale liabilities into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness ("Type A" wholesale funding) and other funding ("Type B" wholesale funding).

12.5.17 G In assessing how its liabilities behave under stress, the *firm* should categorise its liabilities according to value, maturity and estimated speed of outflow. The *firm* should bear in mind that wholesale funding risk may crystallise as an acute loss of funds in the short term, or as a longer-term gradual leakage of funds, or as both.

12.5.18 G In the *FSA's* view, Type A wholesale funding is likely to include at least funding which:

(1) is accepted from a *credit institution*, local authority, *insurance undertaking*, pension fund, money market fund, asset manager (including a hedge fund manager), government-sponsored agency, sovereign government, or sophisticated non-financial corporation; or

(2) is accepted through the treasury function of a sophisticated non-financial corporation which may be assumed to respond swiftly to negative news about a *firm's* credit-worthiness; or

(3) is accepted on wholesale market terms as a part of a *firm's* money market operations; or

(4) is accepted from a depositor with whom a *firm* does not have a long-established relationship or to whom a *firm* does not supply a range of services; or

(5) is accepted from overseas counterparties (other than those in the country or territory of incorporation of a *firm's parent undertaking* or, in the case of a *UK branch*, of the *firm* of which it

forms part); or

(6) is obtained through unsecured debt instruments (such as certificates of deposit, medium-term notes and commercial paper); or

(7) is not obtained through *repo* against assets of the type described in *BIPRU* 12.7.2R(1) or (2); or

(8) is obtained from counterparties with a relatively low creditor seniority on the liquidation of the *firm*.

12.5.19 R For the purpose of *BIPRU* 12.5.15R, a *firm* must assume that it is unable to roll any of its Type A wholesale funding in the first two weeks of the stresses.

Retail funding risk

12.5.20 R In this part of *BIPRU* 12.5, "retail funding" is funding that is accepted from a *consumer*.

12.5.21 R For the purpose of assessing its retail funding risk, a *firm* must:

(1) estimate the gross retail outflows that could occur under the liquidity stresses required by *BIPRU* 12.5.6R;

(2) identify the stress, or combination of stresses, to which it considers its retail funding to be most vulnerable and estimate the gross retail outflows that could occur under that stress or combination of stresses; and

(3) divide its retail funding into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness ("Type A" retail funding) and other funding ("Type B" retail funding).

12.5.22 G In general, the *FSA* expects a *firm's* retail funding to be less responsive than its wholesale funding to actual or perceived changes in the *firm's* credit-worthiness. However, a *firm* should nevertherless make its own assessment of the relative responsiveness of its wholesale and retail funding.

12.5.23 G For the purposes of assessing behaviour under stress, a *firm* should categorise its retail liabilities according to: value, maturity, estimated speed of outflow, product type, interest rate applied and any other factor that it considers relevant to its retail *deposit* structure.

12.5.24 G A *firm* should also be mindful that its retail funding profile is unlikely to be constant. In carrying out its *ILAA*, a *firm* should have regard to any changes to its retail funding profile since the previous *ILAA* and also to the possible impact of any future changes on its ability to maintain retail funding during periods of stress. In its *ILAA* submission to the *FSA*, a *firm* should include an analysis of:

(1) its retail funding profile as at the date of its *ILAA*;

(2) its retail funding profile over the twelve *months* preceding its *ILAA*;

(3) its projected retail funding profile over the twelve *months* following the date of its *ILAA*; and

(4) its approach to assessing which of its retail funding it has classed as Type A retail funding and which as Type B retail funding.

12.5.25 G In the *FSA's* view Type A retail funding is likely to include at least funding which:

(1) has been accepted through the internet; or

(2) is considered to have a more than average sensitivity to interest rate changes (such as a *deposit* whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or

(3) in relation to any individual depositor exceeds to a significant extent the amount of that individual's *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or

(4) is not accepted from a depositor with whom the *firm* has had a long relationship; or

(5) is accepted from retail depositors who can access their *deposits* before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or

(6) is not held in an account which is maintained for transactional purposes.

Intra-day liquidity risk

12.5.26 R For the purpose of assessing its intra-day *liquidity risk* arising from its direct participation in a payment or settlement system, a *firm* must in relation to each such system in which it participates:

(1) calculate on an intra-day basis the net amounts of collateral and cash required by that *firm* to fund participation in that system; and

(2) estimate how the amounts in (1) could change under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.27 G For the purpose of calculating the net amounts of collateral and cash under *BIPRU* 12.5.26R, a *firm* should separately analyse:

(1) the amounts of collateral and cash needed in relation to both its own payments and those of its customers; and

(2) the intra-day timing of the payment of cash and the posting of the collateral, including the time at which the demand for its collateral and cash is greatest.

12.5.28 G For the purpose of *BIPRU* 12.5.26R, a *firm* should ensure that it takes into account, in both normal financial conditions and in periods of stress, the effect of:

(1) other participants in a payment system withholding some or all of the payments expected from them; and

(2) its customers increasing either or both the volume and value of their payments.

12.5.29 R At the same time as it carries out the calculation and estimation in *BIPRU* 12.5.26R, a *firm* which participates directly in one or more payment or settlement systems must also estimate the impact on its liquidity position of the customer to which it has the largest intra-day credit exposure defaulting on its payment obligations to the *firm*:

(1) under normal financial conditions; and

(2) under the stresses required by *BIPRU* 12.5.6R.

12.5.30 G For the purpose of *BIPRU* 12.5.29R, a *firm* should assume that the effect of that default is that the exposure is rolled overnight.

12.5.31 R A *firm* must, as part of its *ILAA* submission to the *FSA*:

(1) identify those payment and settlement systems in which it is a direct participant; and

(2) provide details of the intra-day credit policies that it applies, including the criteria against which it sets credit limits, when extending credit to a customer which is not a direct participant in the payment or settlement system in question.

12.5.32 G For the purpose of *BIPRU* 12.5.31R, the *FSA* would expect a *firm*, in relation to each payment or settlement system in which it participates directly, to provide details of:

(1) that *firm's* charges for providing intra-day credit;

(2) any collateral requirements which it applies to its customers;

(3) the credit limits that it imposes (and the circumstances, if any, in which credit may be provided notwithstanding a limit breach);

(4) the extent to which the customers of that *firm* make use of the credit extended to them; and

(5) where relevant, the points during the day at which a customer is required to settle, or provide assets as collateral to cover, that *firm's* credit exposure to it.

12.5.33 R *BIPRU* 12.5.34R applies to a *firm* which:

(1) is not a direct participant in a given payment or settlement system;

(2) is a customer of a *firm* that is a direct participant in such a system for the purposes of gaining access to that system; and

(3) receives intra-day credit from that participant *firm* or prefunds its account with such a *firm*.

12.5.34 R For the purpose of assessing its intra-day *liquidity risk* a *firm* to which *BIPRU* 12.5.33R applies must assess the effect on its own position of a participant *firm* from which it receives intra-day credit or with which it has a prefunded account being unable to perform its obligations to that *firm*:

(1) under normal financial conditions; and

(2) under the stresses required by *BIPRU* 12.5.6R.

12.5.35 G As part of its *ILAA* submission to the *FSA*, a *firm* to which *BIPRU* 12.5.33R applies should include:

(1) details of any alternative arrangements that it has in place to ensure that it continues to be able to meet its liabilities as they fall due in the circumstances set out in *BIPRU* 12.5.34R; and

(2) details of the policies governing the use of intra-day credit provided to it by a *firm* which is a direct participant in a given payment or settlement system, including details of the criteria against which that participant will decide whether to reduce or cease the provision of intra-day credit.

Intra-group liquidity risk

12.5.36 R Where a *firm* has an *intra-group liquidity modification* permitting it to rely on liquidity from other members of its *group* in order to satisfy the *overall liquidity adequacy rule*, or may be exposed to calls on its own liquidity resources from others in its *group*, then in assessing its intra-*group liquidity risk* it must:

(1) take into account:

(a) the extent to which it and other entities in its *group* have access to central bank funding;

(b) in relation to any *group* entity on which a *firm* relies for liquidity support, the legal and regulatory regime to which that entity is subject, in particular that covering liquidity regulation; and

(c) the contractual arrangements governing any agreed forms of intra-*group* liquidity support (including committed funding lines); and

(2) assume that in periods of stress, *group* entities will not repay loans or *deposits* made by the *firm* to them, but that the *firm* will meet its liabilities that fall due to other *group* entities during the period of the relevant stress.

12.5.37 G For the purpose of *BIPRU* 12.5.36R, a *firm* should consider the full range of legal and regulatory restrictions on the availability to it of liquidity support from other members of its *group*. A *firm* should ensure that it understands restrictions in force in other jurisdictions, as well as the potential for such restrictions to be imposed in the future, as to the allowable size of intra-*group* exposures. A *firm* should also consider the circumstances in which it may find itself obliged to transfer liquidity resources to other entities in its *group*.

12.5.38 R In relation to an *incoming EEA firm* or *third country BIPRU firm* which does not have a *whole-firm liquidity modification*, that *firm* must assess the risk that its *UK branch* may be exposed to calls on liquidity under its control from its head office:

(1) in normal financial conditions; and

(2) under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.39 G In complying with *BIPRU* 12.5.38R a *firm* is therefore assessing its exposure to inter-office *liquidity risk*, rather than intra-*group liquidity risk*. It is the *FSA's* assessment of the *firm's* inter-office *liquidity risk* that is one of the factors that will inform the *FSA's* decision as to the appropriate size for the *firm's* local operational liquidity reserve (as described in *BIPRU* 12.2).

Cross-currency liquidity risk

12.5.40 R For the purpose of assessing its cross-currency *liquidity risk*, a *firm* must:

(1) in relation to each currency in which it has significant positions, calculate its gross outflows and gross inflows having regard to their respective maturities;

(2) where it identifies a net outflow in (1), assess how it will fund that outflow; and

(3) estimate how the amounts in (1) and the assessment in (2) could change under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.41 R A *firm* must, as part of its *ILAA* submission to the *FSA*, in relation to each currency in which it has significant positions:

(1) identify the type of financial instruments which that *firm* uses to raise funding in that currency;

(2) identify the main counterparties which provide funding to that *firm* in that currency; and

(3) describe the arrangements that it has in place to fund net outflows in that currency on a timely basis.

Off-balance sheet liquidity risk

12.5.42 R For the purpose of assessing its off-balance sheet *liquidity risk*, a *firm* must:

(1) identify all off-balance sheet activities that might affect its cash flows;

(2) calculate the effect on its cash flows of those activities in normal financial conditions; and

(3) estimate the effect on its cash flows of those activities under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.43 R For the purpose of *BIPRU* 12.5.42R, a *firm* must take into account the circumstances in which it may choose to provide liquidity support in respect of its off-balance sheet activities beyond its contractual obligations (if any) to do so.

12.5.44 R For the purpose of *BIPRU* 12.5.42R, a *firm* must in particular consider the impact on its cash flows of:

(1) *derivatives* positions;

(2) contingent liabilities;

(3) commitments given; and

(4) liquidity facilities to support securitisation programmes.

12.5.45 G In relation to *derivatives* positions, a *firm* should:

(1) assess the effect on its cash flows arising from the maturity, exercise and repricing of *derivatives* in which it holds a position,

including the impact of counterparties:

(a) who may require the posting of additional margin or collateral in the event of a decline in that *firm's* credit rating;

(b) who may require the posting of additional margin or collateral (or the return to them of margin or collateral) in the event of a change in the value of a *derivative* or of the posted collateral;

(c) who (in the case of those that are any of a *recognised investment exchange*, a *designated investment exchange* or a *recognised clearing house*) may require the posting of additional margin in volatile market conditions;

(d) who may choose to terminate an *OTC derivative* which they have entered into with the *firm* rather than post additional margin or collateral;

(e) who, in periods of name-specific liquidity stress experienced by the *firm*, may choose to terminate out of the money *derivative*s which they have entered into with that *firm*; and

(f) who, in periods of stress, may choose to post less liquid collateral than would likely be the case in normal financial conditions; and

(2) assume that under the stresses required by *BIPRU* 12.5.6R there may be uncertainty as to the accuracy of the valuation attributed to a *derivative* contract.

12.5.46 G In relation to its contingent liabilities, a *firm* should:

(1) calculate the impact on its cash flows of those of its contingent obligations that will be triggered in normal financial conditions; and

(2) estimate the impact on its cash flows of those of its contingent obligations that may be triggered under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.47 G For the purpose of *BIPRU* 12.5.46G, a *firm* should therefore assess the impact on its cash flows of the triggering of contingent obligations contained in all contractual documentation to which it is party, including: acceptances, endorsements, guarantees, underwriting agreements, standby letters of credit, documentary credits, warrants, indemnities, undrawn note issuance facilities and other revolving credit facilities. A *firm* should also assess the degree of concentration in its total contingent liabilities as respects obligations arising from particular types of contract, counterparty and market sector.

12.5.48 G In relation to its commitments (other than liquidity facilities to support securitisation programmes)), a *firm* should:

(1) calculate its maximum contractual exposure arising from those commitments;

(2) calculate the effect on its cash flows of the drawing of those commitments in normal financial conditions; and

(3) estimate the effect on its cash flows of the drawing of those commitments under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.49 G For the purpose of *BIPRU* 12.5.48G, a *firm* should:

(1) consider its contractual exposure to the following types of commitment: committed funding facilities, undrawn loans and advances to wholesale counterparties, mortgages that have been agreed but not yet been drawn down, credit cards, overdrafts (and other retail lending facilities);

(2) ensure that its analysis of each type of commitment is sufficiently granular to enable that *firm* to:

(a) assess the circumstances in which counterparties will draw down;

(b) identify the extent of any correlations as between counterparties in deciding whether or not to draw down;

(c) identify the extent to which decisions by the *firm's* counterparties to draw down may be correlated to a decline in the *firm's* own liquidity resources; and

(d) assess the proportion of its total commitments attributable to particular counterparties; and

(3) assess the extent to which draw down requires the counterparty in question to deliver to the *firm* collateral in the form of marketable assets, while also assessing the anticipated effect of such a requirement on:

(a) the likelihood that the counterparty in question will draw down; and

(b) the *firm's* liquidity position if the counterparty in question delivers collateral on draw down; and

(4) assess the impact on its cash flows of its commitment counterparties experiencing liquidity stress at the same time as

that *firm* is subject to the stresses required by *BIPRU* 12.5.6R.

12.5.50 G In relation to liquidity facilities to support securitisation programmes, a *firm* should:

(1) assess the extent of its contractual obligations to provide liquidity support to sponsored and third-party structured vehicles;

(2) identify the circumstances in which support will, or is likely to, be called; and

(3) assess the impact on that *firm's* cash flows of such support being called:

(a) in normal financial conditions; and

(b) under the liquidity stresses required by *BIPRU* 12.5.6R.

12.5.51 G For the purpose of *BIPRU* 12.5.50G(2), a *firm* should consider the impact of the following events on the likelihood of a call for liquidity support: inability of a vehicle to roll over commercial paper (due either to disruption in the CP market or to concern as to the quality of the assets securitised) and, in relation to sponsored vehicles, concern as to the solvency of that *firm* as sponsor and, separately, the possibility of draw down of undrawn commitments entered into by the sponsored vehicle in its own right.

Franchise-viability risk

12.5.52 R For the purposes of assessing its franchise-viability risk, a *firm* must assess, under the liquidity stresses required by *BIPRU* 12.5.6R, the liquidity resources required to maintain its core business franchise and reputation.

12.5.53 G Franchise-viability risk is the risk that in the stresses required by *BIPRU* 12.5.6R a *firm* may not have sufficient liquidity resources to maintain its core business franchise and reputation.

12.5.54 G In complying with *BIPRU* 12.5.52R, a *firm* should assess the extent to which it can and realistically will:

(1) restrict new retail lines without significantly damaging customer relationships;

(2) restrict new wholesale lending without significantly damaging its ability to resume such lending following the period of stress in question;

(3) cease to provide liquidity support to its sponsored vehicles;

(4) decline to exercise call *options* whose effect if not exercised might be to cause market participants to question the *firm's*

ability to continue to meet its liabilities as they fall due; and

(5) continue any regular programme of buying back its issued debt.

12.5.55 G For the purpose of *BIPRU* 12.5.54G(5), a *firm* may wish to continue repurchasing its debt to help demonstrate that a two-way market continues to be made in its paper and, more generally, in order to maintain the long-term viability of its debt issuance programme. Equally, a *firm* may wish to continue repaying retail depositors before the contractual maturity of those *deposits* in order to maintain confidence in its ability to continue to meet its liabilities as they fall due.

Marketable assets risk

12.5.56 R For the purpose of assessing its exposure to marketable assets risk, a *firm* must assess how the marketable assets comprised in its liquidity resources will behave:

(1) under normal financial conditions; and

(2) under the liquidity stresses identified in *BIPRU* 12.5.6R, including an assessment of the effect of these stresses on:

(a) its ability to derive funding from its marketable assets in a timely fashion;

(b) the potential for using those assets as collateral to raise secured funding and the size of the haircut likely to be required by a counterparty;

(c) the likelihood and extent of forced-sale loss; and

(d) the effect on its business activities of any changes in (a) to (c) identified as likely to result from those liquidity stresses.

12.5.57 G In complying with *BIPRU* 12.5.56R, a *firm* should consider all marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*. A *firm* should therefore include in this assessment any assets that it holds in its liquid assets buffer.

12.5.58 G The *FSA* regards as marketable those of a *firm's* assets that it is able to sell outright or *repo*. For liquidity management purposes, a *firm* would ordinarily expect to hold a stock of assets of this kind in order to reduce the likelihood that it may need to borrow unsecured at short notice. To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to marketable assets risk.

12.5.59 G As a general proposition, the speed with which a *firm* may be able to realise a marketable asset, and the price impact of doing so, will depend to a significant extent on the volume of those assets which that *firm* wishes to realise and the market conditions prevailing at the time.

12.5.60 G The behaviour of a *firm's* marketable assets under conditions of stress is likely to depend on a number of different factors, including:

(1) the depth and competitiveness of the market for the marketable asset in question, the size of the bid-offer spread, the presence of committed market-makers, the nature of the information available to potential counterparties, the degree of structural complexity of the assets in question and the asset's eligibility in central bank market operations and liquidity facilities; and

(2) that *firm's* operational capability to generate funding from those assets in a timely manner.

12.5.61 G In considering its operational capability to generate funding from assets, a *firm* should be aware that its capability in this regard is likely to depend on:

(1) whether it has in place arrangements for *repo*;

(2) the extent to which that *firm* already holds a significant proportion of the market for the marketable asset in question;

(3) the extent to which that *firm* periodically realises some or all of its holdings of that asset; and

(4) that *firm's* accounting treatment and valuation of that asset.

12.5.62 R For the purpose of its *ILAA* submission to the *FSA*, a *firm* must provide the *FSA* with an analysis of the profile of its marketable assets as at the date of submission in a way that:

(1) separately identifies its marketable assets according to asset class, maturity, currency, their eligibility for use in central bank monetary operations and liquidity facilities and any other characteristic that it uses in its liquidity management; and

(2) assesses the degree of diversification achieved across its marketable assets.

Non-marketable assets risk

12.5.63 R For the purpose of assessing its exposure to non-marketable assets risk, a *firm* must assess how the non-marketable assets in its liquidity resources will behave:

(1) under normal financial conditions; and

(2) under the liquidity stresses required by *BIPRU* 12.5.6R, including an assessment of the effect of these stresses on:

(a) the *firm's* ability to derive funding from its non-marketable assets; and

(b) the impact on the *firm's* liquidity position of any consequences for its funding ability identified in (a).

12.5.64 G In complying with *BIPRU* 12.5.63R, a *firm* should consider all non-marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*.

12.5.65 G *BIPRU* 12.2.5G notes that a *firm* should include in its liquidity resources sufficient assets which are marketable or otherwise realisable. The *FSA* considers those assets which are capable of realisation, but other than through *repo* or outright sale, as "non-marketable assets". To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to non-marketable assets risk. Different forms of non-marketable assets risk arise, particularly in relation to:

(1) retail loans; and

(2) unsecured wholesale assets.

12.5.66 G In addition to realising a *firm's* marketable assets, a *firm* can meet its outflows in part by expected inflows from maturing non-marketable assets such as retail loans. Inflows from these assets (principal and interest) may in stressed conditions be affected by counterparty behaviour, exposing that *firm* to non-marketable assets risk.

12.5.67 R For the purpose of assessing its exposure to non-marketable assets risk a *firm* must assess the extent to which the behaviour of inflows from retail loans under the liquidity stresses required by *BIPRU* 12.5.6R may differ from that suggested by their contractual terms.

12.5.68 G For the purpose of the assessment in *BIPRU* 12.5.67R, a *firm* should ensure that it assesses repayment behaviour at a level of granularity sufficient to enable it to draw informed conclusions about its liquidity exposure. The *FSA* would expect a *firm's* assessment to analyse separately the non-marketable assets risk associated with each of its relevant products and with each type of counterparty from whom it is expecting repayments.

12.5.69 G For the purpose of the assessment in *BIPRU* 12.5.67R, a *firm* should in particular have regard to the risk associated with:

(1) repayment defaults; and

(2) exercise by its counterparties of contractual rights to repay before the expected maturity date or to delay repayment beyond that date.

12.5.70 G A *firm* may also use its unsecured wholesale assets to generate liquidity, otherwise than by outright sale or *repo*. A *firm* may, for example, choose to generate funding from some of the assets included in its liquidity resources by using them in securitisation or covered bond programmes. Assets that are typically used to raise liquidity in this manner include residential mortgage loans; commercial mortgage and other loans; credit card and automobile receivables, which have been packaged for the wholesale markets. To the extent that the ability to fund from these non-marketable assets may be limited under stressed conditions, a *firm* may be exposed to non-marketable assets risk.

12.5.71 G The assessment required by *BIPRU* 12.5.63R is particularly important for a *firm* which:

(1) ordinarily does not raise funding from its non-marketable assets in this way; or

(2) places proportionately greater reliance on securitisation programmes as compared to other funding strategies to generate liquidity.

12.5.72 R In complying with *BIPRU* 12.5.63R, a *firm* must in particular assess the non-marketable assets risk associated with asset securitisations, having regard to:

(1) the existence of early amortisation triggers and the consequences of their operation; and

(2) its financing of assets which are warehoused prior to their securitisation.

12.5.73 G A *firm* which chooses to warehouse assets in the way described in *BIPRU* 12.5.72R should consider the particular risks that arise from the method of financing that it uses to pre-fund those assets. For example, financing of warehoused assets by means of short-term (rather than long-term) funding is more likely to put that *firm* under liquidity pressure in the event that its proposed securitisation is not completed (either at all, or at the expected date).

Funding concentration risk

12.5.74 G A *firm* with a sufficiently flexible funding strategy should be able to reduce its *liquidity risk* by diversifying its liquidity resources.

12.5.75 R As part of its *ILAA*, a *firm* must assess the impact on the degree of diversification in its liquidity resources of the stresses required by *BIPRU* 12.5.6R.

12.5.76 G For the purpose of *BIPRU* 12.5.75R, a *firm* should take into account the extent to which its liquidity resources are diversified according to:

(1) type of instrument and product;

(2) currency;

(3) counterparty;

(4) liability term structure; and

(5) market for their realisation (provided that such market is open to the *firm* as counterparty).

12.5.77 G A *firm* should be aware that the degree of diversification in its liquidity resources can be compromised, particularly in periods of stress, by a number of factors, including:

(1) reduced or terminated funding provision from some counterparties as a result of that *firm's* credit-rating being downgraded or its financial condition deteriorating;

(2) disputes over the terms of legally binding commitments to lend which delay the provision of funding;

(3) markets previously used by the *firm* for raising funding ceasing to be open or operating but at reduced capacity;

(4) reliance on a small number of brokers to access funding sources; and

(5) positive correlations in the behaviour of different instruments and products.

## 12.6 Simplified ILAS

12.6.1 G The *FSA* recognises that it may not always be appropriate to apply *BIPRU* 12.5 (Individual Liquidity Adequacy Standards) to every *ILAS BIPRU firm*. For a *firm* which operates a relatively simple business model, it may instead be appropriate to allow the *firm* to calculate the size and content of its liquid assets buffer according to a simplified approach prescribed in the *Handbook* in advance of any review of that *firm's liquidity risk* conducted by the *FSA*. This section sets out the *simplified ILAS* approach to maintaining a liquid assets buffer and a *firm* that operates that approach is a *simplified ILAS BIPRU firm*.

12.6.2 R An *ILAS BIPRU firm* that wishes to operate the *simplified ILAS* approach must:

(1) satisfy the conditions in *BIPRU* 12.6.6R to *BIPRU* 12.6.8R; and

(2) obtain a *simplified ILAS waiver* from the *FSA*.

12.6.3 G A *firm* will therefore lose the benefit of its *simplified ILAS waiver* if it ceases to satisfy the conditions in *BIPRU* 12.6.6R to *BIPRU* 12.6.8R. Consistent with *Principle* 11 (Relations with regulators), if a *firm* anticipates that it may breach those conditions, it should notify the *FSA* promptly.

12.6.4 R A *simplified ILAS BIPRU firm* must calculate the size of its *simplified buffer requirement* in accordance with *BIPRU* 12.6.9R to *BIPRU* 12.6.18R.

12.6.5 G The *FSA* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of *BIPRU* 12.2.8R. However, the *simplified ILAS* approach does not relieve a *simplified ILAS BIPRU firm* from the obligation to hold liquidity resources which are adequate for the purpose of meeting the *overall liquidity adequacy rule* or from the obligation in *BIPRU* 12.3.4R to assess and maintain on an ongoing basis the adequacy of its liquidity resources. Consequently, where a *firm's* own assessment of the adequacy of its liquidity resources indicates that its liquid assets buffer should be larger in size than that produced by the application of the *simplified buffer requirement*, the *FSA* will expect that *firm* to maintain a liquid assets buffer which is consistent with the results of its own assessment. Equally, following any review by the *FSA* of the *liquidity risk* to which a *simplified ILAS BIPRU firm* is exposed, the *FSA* may give that *firm individual liquidity guidance* advising it that its liquid assets buffer should be bigger than that which is produced by the application of the *simplified buffer requirement*.

Simplified ILAS conditions

12.6.6 R The first condition is that:

(1) no less than 75% of the *firm's* total liabilities are accounted for by retail *deposits* and no less than 70% of its total assets are accounted for by retail loans; or

(2) no less than 75% of the *firm's* total liabilities are accounted for by retail *deposits* and no less than 70% of the *firm's* total assets are accounted for by;

(a) *money market instruments* with a residual contractual maturity of three *months* or less; or

(b) sight *deposits* held with a *credit institution*; or

(c) term *deposits* with a residual contractual maturity of three *months* or less held with a *credit institution*; or

(3) no less than 80% of the *firm's* total liabilities are accounted for by liabilities owed to its *parent undertaking* and the amount of the

*firm's* total assets does not exceed £1 billion.

12.6.7 R In this section:

(1) a "retail *deposit*" is a *deposit* accepted from a *consumer*; and

(2) a "retail loan" is a loan to a *consumer*.

12.6.8 R The second condition is that no less than 99.5% of the *firm's* total assets and no less than 99.5% of its total liabilities are denominated in sterling, euros or United States dollars.

Size of the simplified buffer requirement

12.6.9 R (1) A *simplified ILAS BIPRU firm* must ensure that the size of its liquid assets buffer is at all times greater than or equal to the amount produced by adding:

(a) the wholesale net cash outflow component;

(b) the retail deposit component; and

(c) the credit pipeline component.

(2) This is the *simplified buffer requirement*.

The wholesale net cash outflow component

12.6.10 R (1) The wholesale net cash outflow component is a *firm's* peak cumulative wholesale net cash outflow over the next three *months* where the peak is established by:

(a) calculating the daily wholesale net cash flow by reference to a *firm's* wholesale assets maturing that day and its wholesale liabilities falling due on that day;

(b) for each of the *business days* in the next three *months*, calculating the cumulative total of such daily net cash flows as at the *business day* in question; and

(c) identifying the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).

(2) The figure identified in (1)(c) is the peak cumulative wholesale net cash outflow.

(3) For the purpose of calculating the peak cumulative wholesale net cash outflow, a *firm* must:

(a) exclude from the calculation in (1)(a) cash flows attributable to *repo* and reverse *repo* entered into by the *firm* where the security leg of the transaction in question is in respect of securities of the type described in *BIPRU* 12.7.2R(1) and (2);

(b) include wholesale cash outflows in that calculation according to their earliest contractual maturity; and

(c) exclude wholesale cash flows attributable to reserves in the form of sight deposits with a central bank and *designated money market funds* that it includes in its liquid assets buffer in accordance with the *rules* on asset eligibility in *BIPRU* 12.7.

The retail deposit component

12.6.11 R (1) The retail deposit component is the sum represented by:

(a) 20% of a *firm's* Type A retail *deposits*; and

(b) 10% of a *firm's* Type B retail *deposits*.

(2) A *firm* must:

(a) assess the likelihood that retail *deposits* that it holds will be withdrawn in response to actual or perceived changes in the *firm's* credit-worthiness;

(b) calculate the amount of retail *deposits* that it assesses as having a higher than average likelihood of withdrawal in the circumstances described in (a) ("Type A" retail *deposits*); and

(c) class all other of its retail *deposits* as "Type B" retail *deposits*.

12.6.12 G In the *FSA's* view, a Type A retail *deposit* is likely to include one which:

(1) has been accepted through the internet; or

(2) is considered to have a more than average sensitivity to interest rate changes (such as a deposit whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or

(3) in relation to any individual depositor exceeds to a significant extent the amount of that individual's *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or

(4) is not accepted from a depositor with whom the *firm* has had a long relationship; or

(5) is accepted from retail depositors who can access their *deposits*

before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or

(6) is not held in an account which is maintained for transactional purposes.

12.6.13 R Before applying for a *simplified ILAS waiver*, a *firm* must prepare a written policy statement recording its approach to assessing the likelihood of withdrawal of its retail *deposits* in the circumstances described in *BIPRU* 12.6.11R(2)(a) and ensure that:

(1) the *firm's governing body* approves and conducts appropriate reviews of the policy statement; and

(2) the *firm* submits a copy of the policy statement to its usual supervisory contact at the *FSA*.

12.6.14 G In considering a *firm's* application for a *simplified ILAS waiver*, the *FSA* will take into account the *firm's* policy statement submitted to it under *BIPRU* 12.6.13R and form a view about the appropriateness of the assumptions on which the policy statement is based. Where a policy statement submitted after the grant of a *simplified ILAS waiver* reflects a materially different assessment to that set out in the policy statement considered as part of a *firm's waiver* application, a *firm* should expect that the *FSA* will wish to review the continued appropriateness of the *firm's simplified ILAS waiver* and in so doing will re-examine afresh all matters to which it had regard when the *waiver* in question was granted. The *FSA* expects a *firm* to review the appropriateness of its policy statement as often as is necessary and in any event no less frequently than annually. A *firm* should always review the continued appropriateness of its policy statement following a material change to the nature of the *firm's* business. Where a *firm* updates or otherwise changes its policy statement it should submit promptly to the *FSA* the new document.

The credit pipeline component

12.6.15 R The credit pipeline component is the sum represented by 25% of a *firm's* credit facilities offered to its retail *customers* but which are yet to be drawn down, including:

(1) offers to make loans secured on residential property;

(2) overdraft facilities; and

(3) credit card facilities.

Buffer securities restriction

12.6.16 R (1) A *simplified ILAS BIPRU firm* may only include in its liquid assets buffer eligible government and *designated multilateral development bank* debt securities up to the value of the *buffer securities restriction*.

(2) For the purpose of calculating the *buffer securities restriction*, a *firm* must:

(a) calculate its daily net flow in government and *designated multilateral development bank* debt securities eligible as classes of assets for inclusion in the *firm's* liquid assets buffer;

(b) for each of the *business days* in the next three *months* calculate the cumulative total of such daily securities flows, including the opening balance, as at the *business day* in question; and

(c) identify the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).

(3) For the purpose of (2)(a), a *firm* must include all contractual inflows and outflows of eligible debt securities arising from *repo*, reverse *repo*, forward sales, redemptions and any other transactions involving those securities.

12.6.17 G In mathematical terms the calculation in *BIPRU* 12.6.9R and *BIPRU* 12.6.16R may be represented as follows:

| Liquid assets buffer ≥ Wholesale net cash outflow component + Retail component + Credit pipeline component | |
|---|---|
| Liquid assets buffer | $\text{FSA048}_{18,1} + FSA048_{19,1} + FSA048_{6,1} + FSA048_{6,2} + \inf\{f(x) : x = 1,2,3..y\}$ <br> $where:$ <br> $f(x) = \sum_{m=1}^{x} FSA047_{6,m}$ |
| Retail component | $\left(0.1 \times \sum_{\text{m}=1}^{10} \text{FSA048}_{\text{54,m}}\right) + \left(0.2 \times \sum_{\text{m}=1}^{10} \text{FSA048}_{\text{55,m}}\right)$ |
| Credit component | $0.25 \times \left(\sum_{n=59}^{69} \text{FSA048}_{\text{n},1}\right)$ |
| Wholesale net cash outflow component | $\left\lvert \min\left(0, \left(\sum_{\text{n}=44}^{51} FSA048_{n,1}\right) + \left(\sum_{n=52}^{53}\sum_{m=1}^{5} FSA048_{n,m}\right) + FSA048_{56,1} + \inf\{g(x) : x = 1,2,3...y\}\right)\right\rvert$ <br> $where:$ <br> $g(x) = \sum_{m=1}^{y}\left[\left(\sum_{n=20}^{22} FSA047_{n,m}\right) + \left(\sum_{n=26}^{30} FSA047_{n,m}\right) + \left(\sum_{n=35}^{51} FSA047_{n,m}\right) + FSA047_{57,m}\right]$ |
| $Where:$ <br> $y =$ number of business days in three months <br><br> $FSAxxx_{i,j}$ = The entry in FSAXXX row i column j <br><br> $\inf\{f(x) : x = 1,2,3\}$ represents the greatest lower bound of the function f(x) over the range x = 1,2,3 | |

Foreign currency positions

12.6.18 R (1) Subject to (3), a *simplified ILAS BIPRU firm* that has assets or liabilities denominated in either or both euros and United States dollars must carry out separate calculations under *BIPRU* 12.6.9R in relation to its positions in each of those currencies, in addition to that which it carries out in relation to its sterling positions (if any).

(2) A *firm* to which (1) applies must ensure that, for the purpose of meeting the *simplified buffer requirement*, it holds in its liquid assets buffer assets denominated in either or both euros and United States dollars (as relevant) greater than or equal to the amount produced by the calculation in the corresponding currency required under (1), in addition to any sterling liquid assets that it is required to hold in its buffer in respect of its sterling positions.

(3) Paragraph (1) does not apply to a *simplified ILAS BIPRU firm* that hedges fully its positions in either or both euros and United States dollars such that the *firm* is not exposed to any cross-currency *liquidity risk* in respect of those positions.

Content of the simplified ILAS liquid assets buffer

12.6.19 G The *rules* in *BIPRU* 12.7 set out the sorts of assets that are eligible for the liquid assets buffer of an *ILAS BIPRU firm*. Every *ILAS BIPRU firm* may include in its buffer reserves in the form of sight deposits at a central bank and high quality debt securities issued by governments and *designated multilateral development banks* subject to the eligibility rules in *BIPRU* 12.7. *BIPRU* 12.7 provides that a *simplified ILAS BIPRU firm* may also include in its buffer investments in a *designated money market fund*.

12.6.20 G A *simplified ILAS BIPRU firm* may include in the liquid assets buffer any combination of the eligible assets permitted by the *rules* in *BIPRU* 12.7.

ILSA

12.6.21 R (1) A *simplified ILAS BIPRU firm* must regularly carry out an *ILSA* which contains an assessment of the *firm's* compliance with the standards set out in *BIPRU* 12.3 and *BIPRU* 12.4, including the results of the stress tests required by the *rules* in *BIPRU* 12.4.

(2) The *firm* must make a written record of its *ILSA*.

(3) The *ILSA* must be proportionate to the nature, scale and complexity of that *firm's* activities.

(4) The *ILSA* must take into account *group*-wide liquidity resources only to the extent that reliance on these is permitted by the *FSA*.

12.6.22 G For the purpose of *BIPRU* 12.6.21R, a *firm* should carry out an *ILSA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that the *firm's* usual supervisory contact at the *FSA* will ask for the *ILSA* to be submitted as part of the ongoing supervisory process.

## 12.7 Liquid assets buffer

12.7.1 G *BIPRU* 12.2.8R provides that an *ILAS BIPRU firm* must ensure that its liquidity resources contain an adequate buffer of high quality, unencumbered assets. *BIPRU* 12.7 describes in more detail the nature of the assets that are eligible for inclusion in that buffer. The *rules* in this section provide that some types of assets are eligible for use only by a *simplified ILAS BIPRU firm*.

12.7.2 R For the purpose of satisfying *BIPRU* 12.2.8R, a *firm* to which this section applies may only include in its liquid assets buffer:

(1) high quality debt securities issued by a government or central bank;

(2) securities issued by a *designated multilateral development bank*;

(3) reserves in the form of sight deposits with a central bank of the kind specified in *BIPRU* 12.7.5R and *BIPRU* 12.7.6R; and

(4) in the case of a *simplified ILAS BIPRU firm* only, investments in a *designated money market fund*.

12.7.3 R Subject to *BIPRU* 12.7.4R, for the purpose of *BIPRU* 12.7.2R(1), a *firm* may include a debt security which is:

(1) issued by the central government or central bank of an *EEA State*; or

(2) issued by the central government or central bank of Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

12.7.4 R For the purpose of *BIPRU* 12.7.3R, a *firm* may not include a debt security unless:

(1) the central government or central bank in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with *credit quality step* 1 in the *credit quality assessment scale* published by the *FSA* for the purpose of *BIPRU* 3 (The Standardised Approach: mapping of the ECAIs' credit assessments to credit quality steps (Long term mapping)); and

(2) that debt security is either:

(a) denominated in the domestic currency of the country in question; or

(b) denominated in a currency other than the domestic currency, provided it is denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.

12.7.5 R Subject to *BIPRU* 12.7.6R, for the purpose of *BIPRU* 12.7.2R(3) a *firm* may include reserves in the form of sight deposits held by the *firm* with the central bank of:

(1) an *EEA State*; or

(2) Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

12.7.6 R For the purpose of *BIPRU* 12.7.5R, a *firm* may not include reserves held at a central bank unless:

(1) the central bank in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with *credit*

*quality step* 1 in the *credit quality assessment scale* published by the *FSA* for the purpose of *BIPRU* 3 (The Standardised Approach: mapping of the ECAIs' credit assessments to credit quality steps (Long term mapping)); and

(2) those reserves are denominated in the domestic currency of the central bank in question.

12.7.7 G It is important that a *firm* identifies and understands the range of central bank facilities in which it is eligible to participate. A *firm* may be eligible to participate in some facilities of this kind by virtue of its having a *branch* in a particular country. In addition to identifying the central bank facilities to which it has access, a *firm* should ensure that it has in place appropriate legal and administrative arrangements to enable it to draw on those facilities in a timely manner.

12.7.8 G In deciding on the precise composition of its liquid assets buffer, a *firm* should ensure that it tailors the contents of the buffer to the needs of its business and the *liquidity risk* that it faces. In particular, a *firm* should ensure that it holds assets in its buffer which can be realised with the speed necessary to meet its liabilities as they fall due. In doing so, a *firm* should have regard to the currencies in which its liabilities are denominated and should take into account the potential effect of stressed conditions on its ability to access spot and *swap* foreign exchange markets in a manner consistent with the settlement cycles of foreign exchange settlement systems. A *firm* should have regard to the results of its *ILAA* or, as the case may be, its *ILSA*, in assessing the speed with which its liabilities fall due in stressed and non-stressed conditions.

12.7.9 R For the purposes of *BIPRU* 12.7.2R(1) and (2), a *firm* must only count securities:

(1) which are unencumbered;

(2) to which it has legal title; and

(3) which that *firm* realises on a regular basis.

12.7.10 G The *FSA* regards as encumbered any asset which the *firm* in question has provided as collateral. Therefore, where assets have been used as collateral in this way (for example, in a *repo*), they should not be included in the *firm's* liquid assets buffer.

12.7.11 R (1) For the purpose of *BIPRU* 12.7.9R(3), a *firm* must periodically realise a proportion of the assets in its liquid assets buffer through *repo* or outright sale to the market.

(2) A *firm* must also ensure that it periodically realises, through the use of central bank liquidity facilities, a proportion of those of its assets which do not fall into *BIPRU* 12.7.2R(1) or (2).

(3) A *firm* must ensure that in carrying out such periodic realisation:

(a) it does so without reference to the *firm's* day-to-day liquidity needs;

(b) it realises in varying amounts the assets in its liquid assets buffer;

(c) the cumulative effect of its periodic realisation over any twelve *month* period is that a significant proportion of the assets in its liquid assets buffer is realised; and

(d) in *repo* to the market and central bank or in collateral *swap* transactions with a central bank, it enters into transactions of varying durations.

(4) A *firm* must establish and maintain a written policy setting out its approach to periodic realisation of its assets.

12.7.12 G The *FSA* will, as part of its review of a *firm's ILAA* or, as the case may be, its *ILSA*, assess the adequacy of a *firm's* periodic realisation policy and its implementation in practice.

**12.8 Cross-border and intra-group management of liquidity**

12.8.1 G Every *firm* subject to *BIPRU* 12 is subject to the *overall liquidity adequacy rule*. The effect of that *rule* is that every *firm* is required to be self-sufficient in terms of liquidity adequacy and to be able to satisfy that *rule* relying on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or *third country BIPRU firm* compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in *BIPRU* 12.2.3R.

12.8.2 G However, the *FSA* recognises that there may be circumstances in which it would be appropriate for a *firm* to rely on liquidity resources which can be made available to it by other members of its *group*, or for a *firm* to rely on liquidity resources elsewhere in the *firm* for the purposes of ensuring that its *UK branch* has adequate liquidity resources in respect of the activities carried on from the *branch*. Where the *FSA* is satisfied that the statutory tests in section 148 (Modification or waiver of rules) of the *Act* are met, the *FSA* will consider modifying the *overall liquidity adequacy rule* to permit reliance on liquidity support of this kind.

12.8.3 G *BIPRU* 12.8 provides *guidance* on two types of modification to the *overall liquidity adequacy rule* and to other *rules* in *BIPRU* 12 for which the *FSA* considers a *firm* may wish to apply, namely:

(1) an *intra-group liquidity modification*; and

(2) a *whole-firm liquidity modification*.

12.8.4 G In considering whether the statutory tests in section 148 of the *Act* have been met, the *FSA* will, amongst others, have regard to the factors detailed below in relation to an *intra-group liquidity modification* (of the kind permitting the inclusion in a *firm's* liquidity resources of *parent undertaking* liquidity support) and a *whole-firm liquidity modification*. In practice it is likely that the *FSA* will view these as preconditions to the grant of an *intra-group liquidity modification* of that type or a *whole-firm liquidity modification* and will therefore ordinarily need to be satisfied fully that each has been adequately addressed. They include matters on which the *FSA* will need to reach agreement with the *Home State regulator*, *third country competent authority*, or other relevant supervisor, and also matters which it will need to agree directly with a *firm* or the *parent undertaking* of a *firm*. It is likely that a number of these matters will be reflected as requirements or conditions in the modification.

12.8.5 G This section represents merely an indication of the matters to which the *FSA* will have regard in considering an application for a *whole-firm liquidity modification* or an *intra-group liquidity modification*. In considering such an application, the *FSA* will always take into account anything that it reasonably considers to be relevant for the purposes of assessing whether the statutory tests in section 148 of the *Act* are met. In doing so, it will have regard to the role and importance of a *firm* or *UK branch* in the *financial system*.

12.8.6 G The *FSA* anticipates that an application to modify the *overall liquidity adequacy rule* may be accompanied by an application to waive or modify other rules in *BIPRU* 12 (for example, the stress testing and *contingency funding plan rules* in *BIPRU* 12.4). The *FSA* offers some *guidance* in this section on applications of this type.

Intra-group liquidity modification: general

12.8.7 G The *FSA* recognises that a *firm* may be part of a wider *group* which manages its liquidity on a *group*-wide basis. A *firm* which considers that the statutory tests in section 148 of the *Act* are met may apply for an *intra-group liquidity modification* permitting it to rely on liquidity support from elsewhere in its *group*. Until a *firm* has such a modification it will need to meet the *overall liquidity adequacy rule* from its own liquidity resources. The effect of an *intra-group liquidity modification* is to modify the *overall liquidity adequacy rule* to recognise the extent to which the *FSA* is prepared to accept liquidity resources from other entities in a *firm's group* for the purposes of the *firm's* own compliance with the *overall liquidity adequacy rule*. *BIPRU* 12.8.11G offers additional *guidance* on the likely extent of this recognition.

12.8.8 G *BIPRU* 12.8.14G to *BIPRU* 12.8.20G set out the *FSA's* likely approach in considering an application for an *intra-group liquidity modification* in which a *firm* seeks to rely on support from a *parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*.

12.8.9 G The *FSA* may also consider an application for an *intra-group liquidity modification* where a *firm* wishes to rely on liquidity resources from an entity in its *group* other than an *overseas parent undertaking*. The *FSA* recognises that a *firm* incorporated in the *United Kingdom* and to which *BIPRU* 12 applies may wish to rely on liquidity support from another such *firm*. In practice, the *FSA* anticipates that a *firm* applying for an *intra-group liquidity modification* in these circumstances will be asking for permission to rely on support from its *parent undertaking* in the *United Kingdom*. In any event, the *FSA* will consider such applications on a case-by-case basis and will apply the approach outlined in *BIPRU* 12.8.14G to *BIPRU* 12.8.20G where relevant and by analogy.

12.8.10 G The *FSA* also recognises that a *firm* incorporated in the *United Kingdom* and to which *BIPRU* 12 applies may wish to rely on liquidity support from a *subsidiary undertaking* of that *firm* which is incorporated in a country or territory outside the *United Kingdom*. The *FSA* is, however, likely to consider that an application for an *intra-group liquidity modification* that contemplates reliance for liquidity support on only, or mostly, an applicant *firm's* overseas *subsidiary undertakings* is unlikely to satisfy the tests in section 148 of the *Act*. As a general principle, and unless persuaded otherwise by an applicant *firm's* arguments in support of its application for an *intra-group liquidity modification*, the *FSA* is likely to take the view that a *firm's* overseas *subsidiary undertakings* are likely to be constrained in their ability to provide meaningful levels of liquidity support to their *parent undertaking.*

12.8.11 G In each application for an *intra-group liquidity modification*, the *FSA* will consider the extent to which it is appropriate to modify the *overall liquidity adequacy rule* to allow reliance by an applicant *firm* on liquidity resources elsewhere in a *firm's group*. However, it is unlikely that the *FSA* would consider the conditions in section 148 of the *Act* to be met in circumstances in which the *overall liquidity adequacy rule* was modified to allow unlimited reliance on liquidity resources that are not the applicant *firm's* own. As a general principle, the *FSA* is likely to wish to ensure that, having regard to the results of an applicant *firm's ILAA*:

(1) once modified, the *overall liquidity adequacy rule* still requires the *firm* to have adequate liquidity resources to enable it to wind down its business in an orderly and controlled manner in circumstances in which its business ceases to be viable; and

(2) the amount of liquidity support permitted in the modification is a reasonable one having regard to the total liquidity resources of the *group* entity on which it is proposed that reliance should be placed.

12.8.12 G In determining the appropriate duration of an *intra-group liquidity modification*, the *FSA* will have regard to the role and importance of the *firm* in question in the *financial system*. In some cases, the *FSA* may take the view that an *intra-group liquidity modification* covering a *firm* whose role and importance in the *financial system* are significant ought to be reviewed more regularly than one granted in respect of a less systemically significant *firm*. The *FSA* will consider this issue in determining the appropriate duration of such a modification.

12.8.13 G In modifying the *overall liquidity adequacy rule* by means of an *intra-group liquidity modification*, the *FSA* may also modify the stress testing and *contingency funding plan rules* in *BIPRU* 12.4 such that an applicant *firm* may achieve compliance with those *rules* by its *parent undertaking* conducting *group*-wide stress testing and preparing a *group*-wide *contingency funding plan* which gives adequate recognition to the position of the applicant *firm*.

Consideration of an application for an intra-group liquidity modification

12.8.14 G *BIPRU* 12.8.15G to *BIPRU* 12.8.20G set out some of the matters on which the *FSA* will expect to be satisfied before granting an *intra-group liquidity modification* where permission is sought to rely on support from an *overseas parent undertaking* which is itself subject to a regime of liquidity regulation.

12.8.15 G In relation to the regime of liquidity regulation imposed by the authority that regulates for liquidity purposes an applicant *firm's parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*, the *FSA* will ordinarily expect to be satisfied that:

(1) the regime of liquidity regulation to which that *undertaking* is subject delivers outcomes as regards the regulation of that *undertaking's liquidity risk* that are broadly equivalent to those intended by *BIPRU* 12; and

(2) there is clarity as to any legal constraints imposed by the authority which regulates that *undertaking* for liquidity purposes on the provision of liquidity from that *undertaking* to the applicant *firm*.

12.8.16 G It will not always be the case that an applicant *firm* wishes to rely on a *parent undertaking*, or other *group* entity, that is itself subject to a regime of liquidity regulation, whether or not equivalent to the *FSA's*. In assessing a *firm's* application for an *intra-group liquidity modification*, the *FSA* will always have regard to the regulatory framework to which the entity on which it is proposed to rely for liquidity support is subject. Other things being equal, however, the *FSA* is more likely to be persuaded that the tests in section 148 of the *Act* are met in circumstances in which the entity on which it is proposed to rely for liquidity support is itself subject to an appropriate degree of regulation. Even where the *parent undertaking*, or other *group* entity, in question is subject to a regime of liquidity regulation, the *FSA* will in principle be more likely to grant an *intra-group liquidity modification* in circumstances in which the applicant *firm* does not accept a significant amount of retail *deposits*.

12.8.17 G In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *FSA* will ordinarily expect to reach agreement with the authority that regulates that *undertaking* for liquidity purposes in a number of areas, including agreement that:

(1) it will notify the *FSA* of any material or persistent breaches by that *undertaking* of that authority's liquidity rules, or of risks that such breaches are imminent;

(2) it is satisfied with the adequacy of the *parent undertaking's* arrangements for *liquidity risk* management;

(3) it is satisfied as to the adequacy of the *parent undertaking's* liquidity resources including:

(a) the size and quality of its liquid assets buffer; and

(b) the size and quality of any liquidity resources that are held in the *United Kingdom* for the purpose of meeting the liabilities of an applicant *firm* as they fall due;

(4) it does not object to any undertakings given by that *parent undertaking* in respect of an applicant *firm* to ensure that the *firm* has adequate liquidity resources; and

(5) it will have due regard to the views of the *FSA* in its supervision of the liquidity position of that *parent undertaking*.

12.8.18 G In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *FSA* will, before granting an *intra-group liquidity modification*, ordinarily expect to have reached agreement with that *parent undertaking* that:

(1) it will make available liquidity resources at all times to that applicant *firm* if needed;

(2) it will enter into an undertaking in a suitable form with an applicant *firm* committing it to provide liquidity support to that *firm* on the occurrence of certain defined events;

(3) it will ensure that the applicant *firm* maintains liquidity resources of appropriate size and quality in the *United Kingdom* for the purposes of meeting the liquidity needs of that *firm*;

(4) it will maintain arrangements, including having adequate liquidity resources, to ensure that it, the applicant *firm* and any other entities in its *group* to which it provides liquidity support are able to wind down their businesses in an orderly and controlled manner in circumstances where its, or their, businesses cease to be viable;

(5) it will make available to the *FSA* information in an appropriate format on *group* liquidity; and

(6) it will participate in the *FSA's* thematic supervisory work in relation to liquidity when requested to do so by the *FSA*.

12.8.19 G The *FSA* will wish to ensure that it has adequate data at the time of consideration of the *intra-group liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of any *group* entity on which the applicant *firm* proposes to rely for liquidity purposes. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* populated by the entities on which the applicant *firm* proposes to rely. It is also likely that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that the entities on which it is given permission to rely for the purpose of meeting the *overall liquidity adequacy rule* provide completed relevant *data items* to the *FSA* on a continuing basis. The frequency of *data item* submission will be determined as part of the *FSA's* consideration of the applicant *firm's* case but is in any event likely to be reflective of the *FSA's* assessment of the *liquidity risk* profile of the entities on which liquidity support is permitted.

12.8.20 G In addition, the *FSA* will also wish to understand in relation to any *group* entity on which an applicant *firm* proposes to rely for liquidity support the legal structure of the *group* and the extent to which that structure, or any relevant legal principles, may restrict the provision of timely liquidity support in appropriate amounts to the applicant *firm* when required.

Ongoing requirements

12.8.21 G The *FSA* also anticipates that an *intra-group liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:

(1) the *FSA* receiving annual confirmation from the authority that regulates an applicant *firm's parent undertaking* for liquidity purposes that it remains satisfied with the arrangements in respect of that *undertaking* for liquidity supervision and their operation; and

(2) an annual meeting with the same authority to discuss liquidity

supervision of that *undertaking*.

Whole-firm liquidity modification: general

12.8.22 G In relation to an *incoming EEA firm* or *third country BIPRU firm*, the *overall liquidity adequacy rule* provides that, for the purpose of complying with that *rule*, a *firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in *BIPRU* 12.2.3R. Those conditions seek to ensure that a *firm* of this kind has a reserve of liquidity for operational purposes that is under the control of, and available for use by, that *firm's UK branch*. Further *guidance* is given in *BIPRU* 12.5.39G in relation to the local operational liquidity reserve. In addition, *BIPRU* 12.9.10G explains how the *FSA* will approach the giving of *individual liquidity guidance* to an *incoming EEA firm* or *third country BIPRU firm*. The *FSA* does, however, recognise that there are circumstances in which it may be appropriate for a *UK branch* to rely on the availability of liquidity resources from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind for its *UK branch* may apply for a modification to the *overall liquidity adequacy rule* where it considers that the statutory tests in section 148 of the *Act* are met.

12.8.23 G Although an *incoming EEA firm* or *third country BIPRU firm* may apply to modify the *overall liquidity adequacy rule* and other *rules* in *BIPRU* 12, in relation to its *UK branch*, the *FSA* anticipates that many such *firms* will wish to apply for a modification in the form which the *FSA* defines as a *whole-firm liquidity modification*. In the *FSA's* view, a modification to the *overall liquidity adequacy rule* for a *firm* of this kind will tend to be appropriate where an applicant *firm* manages its liquidity on an integrated, whole-*firm* basis. Where that is the case, and having regard to the matters outlined in the *guidance* in this section, the *FSA* is likely to consider it more appropriate for the *UK branch* to be subject, in large part, to the same regulatory liquidity regime which applies to the rest of the *firm*. In granting a *whole-firm liquidity modification* the *FSA* therefore recognises that in certain circumstances a *UK branch* can have adequate liquidity resources in circumstances where the liquidity resources upon which the *firm* seeks to rely do not meet the criteria set out in *BIPRU* 12.2.3R.

12.8.24 G Accordingly, a *whole-firm liquidity modification* envisages:

(1) a modification to the *overall liquidity adequacy rule* so as to permit reliance by the *firm*, in relation to its *UK branch*, on liquidity resources wherever held in the *firm* for the purposes of meeting that *rule*; and

(2) a *waiver* of the remainder of the substantive *rules* in *BIPRU* 12, with the effect that the *UK branch* of the applicant *firm* becomes subject for the purpose of day-to-day liquidity supervision to the liquidity regime of the *Home State regulator* or *third country competent authority* in question.

12.8.25 G The effect of a *whole-firm liquidity modification* is that the *FSA* will in its supervision of the liquidity of the *UK branch* place reliance on the liquidity regime of the *Home State regulator* or *third country competent authority* in question. The *FSA* will wish to ensure that it has adequate data at the time of consideration of the *whole-firm liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of the *firm* as a whole. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* covering the liquidity position of the *firm* as a whole. It is also likely that an applicant *firm* will be asked, as part of its application, to provide an appropriately detailed account as to the activities conducted by its *UK branch* as at the date of the application. In addition, the *FSA* anticipates that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that it provides relevant *data items*, covering the whole-*firm* liquidity position, to the *FSA* on a continuing basis at a frequency to be determined as part of the *FSA's* consideration of the applicant *firm's* case but in any event likely to be reflective of the *FSA's* assessment of the *liquidity risk* profile of the *firm*.

Consideration of an application for a whole-firm liquidity modification

12.8.26 G In relation to the *Home State regulator's* or *third country competent authority's* regime of liquidity regulation, the *FSA* will, before granting a *whole-firm liquidity modification*, ordinarily expect to be satisfied that:

(1) the regime in question delivers outcomes as regards the regulation of the applicant *firm's liquidity risk* that are broadly equivalent to those intended by this chapter; and

(2) there is clarity as to any legal constraints imposed by the *Home State regulator* or *third country competent authority* on the provision of liquidity by a *firm* to its *UK branch*, as well as the potential for such restrictions to be imposed in the future.

12.8.27 G In relation to the applicant *firm* in question, the *FSA* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with the *Home State regulator* or *third country competent authority* in a number of areas, including agreement that:

(1) it will notify the *FSA* promptly of any material or persistent breaches by that *firm* of its liquidity rules, or of risks that such breaches are imminent;

(2) it is satisfied with the adequacy of the arrangements in place for *firm*-wide *liquidity risk* management;

(3) it is satisfied as to the adequacy of that *firm's* liquidity resources including the size and quality of its liquid assets buffer;

(4) it does not object to any undertakings given by that *firm* in respect of its *UK branch* to ensure that the *branch* has adequate liquidity resources; and

(5) it will have due regard to the views of the *FSA* in its supervision of that *firm's* liquidity position.

12.8.28 G In relation to the applicant *firm* in question, the *FSA* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with that *firm* in a number of areas, including agreement that:

(1) it will make available liquidity resources at all times to its *UK branch* if needed;

(2) it will make available to the *FSA* information in an appropriate format on *firm*-wide liquidity;

(3) it will notify the *FSA* at the same time as it notifies the *Home State regulator* or *third country competent authority* of any issues relevant to the liquidity position of its *UK branch* or compliance with the rules to which it is subject in respect of its liquidity (including with the terms of its *whole-firm liquidity modification*);

(4) its *UK branch* will continue to be fully integrated with the rest of the *firm* for *liquidity risk* management purposes; and

(5) it will participate in the *FSA's* thematic supervisory work in relation to liquidity when requested to do so by the *FSA*.

Ongoing requirements

12.8.29 G The *FSA* also anticipates that a *whole-firm liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:

(1) the *FSA* receiving annual confirmation from the *Home State regulator* or *third country competent authority* that it remains satisfied with the arrangements in respect of that *firm* for liquidity supervision and their operation;

(2) an annual meeting with the *Home State regulator* or *third country competent authority* to discuss liquidity supervision of that *firm*;

(3) the *FSA* receiving annual confirmation from the *firm*, approved

by its *governing body*, that it remains in full compliance with the terms of its *whole-firm liquidity modification*; and

(4) as at the first anniversary of the grant of the *whole-firm liquidity modification* and on each anniversary thereafter, the *FSA* receiving from the *firm*:

(a) an appropriate account of the activities conducted by the *UK branch* over the previous year; and

(b) a copy of the *firm's* latest business plan where this differs from that previously sent to the *FSA* after grant of its *whole-firm liquidity modification*.

12.8.30 G In determining the appropriate duration of a *whole-firm liquidity modification*, the *FSA* will have regard to the role and importance of the *UK branch* in question in the *financial system*. In some cases, the *FSA* may take the view that a *whole-firm liquidity modification*, covering a *UK branch* whose role and importance in the *financial system* are significant, ought to be reviewed more regularly than one granted in respect of a less systemically significant *branch*. The *FSA* will consider this issue in determining the appropriate duration of such a modification. The *FSA* is also likely to consider it appropriate in modifications other than those of short duration to reflect in the terms of the modification representations made either in an applicant *firm's* business plan or direct to the *FSA* as part of the application process, but in either case as to the expected nature and size of the *UK branch's* activities over the course of the duration of the modification. Where requirements are included in a modification in relation to these matters, a *firm* that anticipates that it will breach those requirements will need to apply in advance of any such event for a variation to its then existing *whole-firm liquidity modification*. In considering an application to vary, the FSA will consider afresh whether the tests in section 148 of the *Act* continue to be met for the grant of a *whole-firm liquidity modification* to the *firm* in question.

## 12.9 Individual liquidity guidance and regulatory intervention points

FSA assessment process

12.9.1 G The *FSA* will give *individual liquidity guidance* to a *standard ILAS BIPRU firm*. Ordinarily, the *FSA* will give *individual liquidity guidance* after a review of a *standard ILAS BIPRU firm's ILAA*. The *FSA* will, however, issue *individual liquidity guidance* to such a *firm* whenever it is considered appropriate.

12.9.2 G In assessing the adequacy of an *ILAS BIPRU firm's* liquidity resources, the *FSA* draws on more than just a review of the submitted *ILAA*, or in the case of a *simplified ILAS BIPRU firm*, the submitted *ILSA*. Use is made of wider supervisory knowledge of a *firm* and of wider market developments and practices. When forming a view of the *individual liquidity guidance* to be given to an *ILAS BIPRU firm*, the *FSA* will also consider the *firm's* ARROW risk assessment and any other issues arising from day-to-day supervision.

12.9.3 G The *FSA* will take a risk-based and proportionate approach to the review of a *firm's ILAA* or *ILSA*, focusing where appropriate on that *firm's* approach to dealing with the risks it faces.

12.9.4 G As part of the *SLRP*, the *FSA* will give a *standard ILAS BIPRU firm individual liquidity guidance* advising it of the amount and quality of liquidity resources which the *FSA* considers are appropriate, having regard to the *liquidity risk* profile of that *firm*. In giving *individual liquidity guidance*, the *FSA* will also advise the *firm* of what it considers to be a prudent funding profile for the *firm*. In giving the *firm individual liquidity guidance* as to its funding profile, the *FSA* will consider the extent to which the *firm's* liabilities are adequately matched by assets of appropriate maturities. In both cases, the *FSA* will have regard to the adequacy of a *firm's* systems and controls in relation to *liquidity risk* when judged against the standard described in the *rules* and *guidance* in *BIPRU* 12.3 and *BIPRU* 12.4. *Individual liquidity guidance* will therefore have two components:

(1) *guidance* about the *firm's* liquid assets buffer; and

(2) *guidance* about the *firm's* funding profile.

12.9.5 G The *FSA* will ordinarily not expect to give *individual liquidity guidance* to a *simplified ILAS BIPRU firm*. However, if after review of such a *firm's ILSA*, the *FSA* is not satisfied that the *simplified buffer requirement* delivers an adequate amount and quality of liquidity resources for that *firm*, having regard to its *liquidity risk* profile, the *FSA* will issue the *firm* with *individual liquidity guidance* and may also consider revoking the *firm's simplified ILAS waiver*.

12.9.6 G In giving *individual liquidity guidance*, the *FSA* seeks a balance between delivering consistent outcomes across the *individual liquidity guidance* that it gives to every *ILAS BIPRU firm* and recognising that such *guidance* should reflect the individual features of a *firm*. Comparison with the assumptions used by other *firms* will be used to trigger further enquiry.

12.9.7 G Following an internal validation process, the *FSA* will write to the *standard ILAS BIPRU firm* whose *ILAA* it has reviewed, providing both quantitative and qualitative feedback on the results of the *FSA's* assessment. This letter will notify that *firm* of the *individual liquidity guidance* that the *FSA* considers appropriate together with its reasons for concluding that such *guidance* is appropriate. The *FSA* will adopt the same process where it chooses to give *individual liquidity guidance* to a *simplified ILAS BIPRU* following a review of that *firm's ILSA*.

12.9.8 G Where the amount and quality of liquidity resources which the *FSA* considers a *firm* needs having regard to its *liquidity risk* profile are not the same as the *firm's* own assessment of those resources under its *ILAA*, the *FSA* expects to discuss any such difference with the *firm*.

12.9.9 G Consistent with *Principle* 11 (Relations with regulators), the *FSA* will expect a *firm* to notify it if the *firm* does not propose to follow its *individual liquidity guidance*. The *FSA* will expect any such notification to be accompanied by a clear account of the *firm's* reasons for considering the *individual liquidity guidance* to be inappropriate. The *FSA* will expect to receive any such notification within one *month* from the date on which it gives *individual liquidity guidance* to the *firm*. If agreement through further analysis and discussion cannot be reached (including through use of the *FSA's* powers under section 166 (Reports by skilled persons) of the *Act*), then the *FSA* will consider using its powers under the *Act* (for example, its power under section 45 to vary, on its own initiative, a *firm's Part IV permission* or its *power of intervention* under section 196) so as to require a *firm* to hold such liquidity resources as the *FSA* considers are adequate having regard to the *liquidity risk* profile of the *firm*.

Additional guidance for branches

12.9.10 G In relation to an *incoming EEA firm* or *third country BIPRU firm*, where the *FSA* gives that *firm individual liquidity guidance* in relation to its *UK branch*, it will have regard to the *liquidity risk* profile of the *branch*. In the absence of a *whole-firm liquidity modification*, the effect of *BIPRU* 12.2.1R(2)(b) and *BIPRU* 12.2.3R is to require the *firm* to hold a liquid assets buffer of the amount identified as appropriate in its *individual liquidity guidance* (or in the case of a *simplified ILAS BIPRU firm*, the amount of its *simplified buffer requirement* unless this has been superseded by the *FSA* issuing *individual liquidity guidance* to the *firm* in question) in the form of a local operational liquidity reserve. Further *guidance* is given in *BIPRU* 12.5.39G in relation to the local operational liquidity reserve. In determining the appropriate size of such a *firm's* liquid assets buffer the *FSA* will have regard to all relevant factors, including the extent to which the *FSA* has adequate data to enable it to assess accurately the *liquidity risk* elsewhere in the *firm* beyond its *UK branch*.

Regulatory intervention points for ILAS BIPRU firms

12.9.11 G *BIPRU* 12.2.9G records the *FSA's* recognition that in periods of stress a *firm's* liquid assets buffer may be eroded. It may also be the case that in such periods a *firm's* funding profile deteriorates such that it no longer conforms to the prudent liquidity profile described in the *individual liquidity guidance* given to the *firm*. Deviation by a *firm* from the terms of the *individual liquidity guidance* given to it by the *FSA* or, as the case may be, from the *simplified buffer requirement*, does not automatically mean that the *FSA* will consider that the *firm* is in breach of, or likely to breach, *threshold conditions*.

12.9.12 G The *FSA* will examine any deviation on its own facts and will always want to understand clearly the reasons for that deviation and the *firm's* plans for remedying it. Deviation is, however, likely to prompt a re-examination by the FSA of the *firm's* compliance, and likely future compliance, with *threshold conditions*. The *FSA* will have regard to the information provided by the *firm* and to any other relevant factors in assessing the *firm's* continuing ability to satisfy *threshold conditions*. *BIPRU* 12.9.13R to *BIPRU* 12.9.18R set out a number of requirements which apply to an *ILAS BIPRU firm* that deviates from its *individual liquidity guidance*, or as the case may be, from the *simplified buffer requirement*.

12.9.13 R On the occurrence of any of the events identified in *BIPRU* 12.9.14R, a *firm* must as soon as it becomes aware of the event in question:

(1) notify the *FSA* in writing;

(2) provide the *FSA* with an adequately reasoned explanation for the deviation; and

(3) implement its *contingency funding plan*.

12.9.14 R For the purpose of *BIPRU* 12.9.13R, the events in question are:

(1) in the case of a *simplified ILAS BIPRU firm* only, breach, or expected breach, of the *simplified buffer requirement* unless this has been superseded by *individual liquidity guidance* that it has accepted;

(2) in the case of a *standard ILAS BIPRU firm* or a *simplified ILAS BIPRU firm*, being a *firm* which in either case has accepted *individual liquidity guidance* given to it by the *FSA*:

(a) its liquid assets buffer falling, or being expected to fall below, the level advised in the *guidance*; or

(b) its funding profile ceasing, or being expected to cease, to conform to that advised in the *guidance*.

12.9.15 G As part of the *FSA's* enquiry into the reasons for a *firm's* deviation, or expected deviation, from its *individual liquidity guidance* or, as the case may be, its *simplified buffer requirement*, the *FSA* may ask for further assessments and analyses of a *firm's* liquidity resources and the risks faced by the *firm*. The *FSA* may consider the use of its powers under section 166 of the *Act* to assist in such circumstances.

12.9.16 G Consistent with *Principle* 11 of the *FSA's Principles for Businesses* (Relations with regulators), if a *firm* has not accepted *individual liquidity guidance* given by the *FSA* it should, nevertheless, notify the *FSA* as soon as it becomes aware of either of the events identified in *BIPRU*

12.9.14R(2)(a) or (b).

12.9.17 R No later than two *days* after the *day* on which a *firm* notifies the *FSA* under *BIPRU* 12.9.13R(1), the *firm* must submit a liquidity remediation plan to the *FSA*.

12.9.18 R For the purposes of *BIPRU* 12.9.17R, a *firm's* liquidity remediation plan must:

(1) be communicated in writing;

(2) detail the *firm's* forward estimates of the evolution of the size of the *firm's* liquid assets buffer and of its funding profile;

(3) in relation to any of the events identified in *BIPRU* 12.9.14R that has occurred, detail the actions that the *firm* intends to take to remedy the relevant deviation, or avoid the expected deviation, including information about:

(a) the amount of funding that it is intended to raise;

(b) the intended funding providers; and

(c) the maturity profile of the intended funding;

(4) identify clear timescales for achieving each of the actions that it details in accordance with *BIPRU* 12.9.18R(3); and

(5) include an adequately reasoned assessment of the likelihood of the timely achievement of the actions that it details in accordance with *BIPRU* 12.9.18R(3).

12.9.19 G The *FSA* will assess the adequacy of the liquidity remediation plan submitted by a *firm*, including the likelihood of its success. A *firm* should expect that the *FSA* will want to discuss the terms of the liquidity remediation plan submitted to it under *BIPRU* 12.9.18R. In its re-examination of the *firm's* compliance, and likely future compliance, with *threshold conditions* taken as a whole, the *FSA* will have regard to the adequacy of the *firm's* liquidity remediation plan.

12.9.20 G Other things being equal, the *FSA* will expect a *firm* which is not experiencing a period of stress to restore its liquidity resources more rapidly than one which is under stress at the time that it deviates from its *individual liquidity guidance* or, as the case may be, from its *simplified buffer requirement*.

12.9.21 G If agreement through discussion with the *FSA* cannot be reached as to the necessary actions and timescales to remedy deviation from that *guidance*, the *FSA* will consider using its powers under the *Act* (for example, its power under section 45 to vary, on its own initiative, a *firm's Part IV permission* or its *power of intervention* under section 196) so as to require the *firm* to take such actions as the *FSA* considers are necessary to return the *firm* to conformity with the terms of its *individual liquidity guidance* or, as the case may be, with its *simplified buffer requirement*.

12.9.22 G Although *BIPRU* 12.9.17R to *BIPRU* 12.9.21G set out the *FSA's* likely approach, the *FSA* will take whatever action it considers appropriate in the particular circumstances of a given case.

12.9.23 G A *firm* that deviates from current *individual liquidity guidance* that it has accepted or, as the case may be, from its *simplified buffer requirement*, will be experiencing a *firm-specific liquidity stress* for the purpose of the reporting *rules* in *SUP* 16 (Reporting requirements). Those *rules* require the *firm* to report specified *data items* more frequently than would otherwise be the case. Additionally, a *firm* that is implementing a liquidity remediation plan should expect that the *FSA* will wish to monitor its implementation of that plan. The *firm's* progress in achieving the remedial actions identified in its plan is a matter to which the *FSA* will have regard in considering the *firm's* compliance, and likely future compliance, with *threshold conditions*.

Monitoring requirement

12.9.24 R An *ILAS BIPRU firm* must monitor on each *business day* whether it is in conformity with *individual liquidity guidance* that it has accepted or, as the case may be, with the *simplified buffer requirement*.

Mode of notification

12.9.25 R Notification to the *FSA* under *BIPRU* 12.9.13R(1) and submission to the FSA under *BIPRU* 12.9.17R must be made to the following *FSA* email address: data_collection@fsa.gov.uk

12.9.26 G Although *BIPRU* 12.9.25R requires notification and submission in the way prescribed in that *rule*, the *FSA* expects that a *firm* would also bring to the attention of its usual supervisory contact at the *FSA* the fact that it had made such a notification or submission.

12.9.27 G For the purpose of the notification expected under *BIPRU* 12.9.26G, the *FSA* would expect any such notification to be made in the way envisaged in *BIPRU* 12.9.25R.

After BIPRU TP 25, insert the following new transitional rules.

## TP 26 Quantitative aspects of BIPRU 12: all firms to which BIPRU 12 applies

Application

26.1 R *BIPRU* TP 26 applies to a *firm* which as at 1 December 2009 falls into *BIPRU* 12.1.1R.

Transitional provisions

26.2

| (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|
| | Material to which the transitional provision applies | | Transitional Provision | Transitional provision: dates in force | Handbook provisions: coming into force |
| 1 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LS of *IPRU(BANK)*, the sections listed in column (2) do not apply. | 1 December 2009 until 31 May 2010 | 1 December 2009 |
| 2 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | Subject to (3), in relation to a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with *IPRU(BSOC)*, the sections listed in column (2) do not apply. | 1 December 2009 until 31 May 2010 | 1 December 2009 |
| 3 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with *IPRU(BSOC)* and which as at 1 June 2010 has a *simplified ILAS waiver*, | 1 December 2009 until 30 September 2010 | 1 December 2009 |

| | | | | | |
|---|---|---|---|---|---|
| | | | the sections listed in column (2) do not apply. | | |
| 4 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of *IPRU(BANK)* and which is not an *incoming EEA firm* or a *third country BIPRU firm*, the sections listed in column (2) do not apply. | 1 December 2009 until 30 September 2010 | 1 December 2009 |
| 5 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of *IPRU(BANK)* and which is an *incoming EEA firm* or a *third country BIPRU firm*, the sections listed in column (2) do not apply. | 1 December 2009 until 31 October 2010 | 1 December 2009 |
| 6 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to an *incoming EEA firm* or a *third country BIPRU firm* which as at 30 November 2009 has a Global Liquidity Concession (as described in *IPRU(BANK)* Chapter LM 4(2)), the sections listed in column (2) do not apply. | 1 December until 31 October 2010 or, if earlier, the date on which the *firm* ceases to have a Global Liquidity Concession | 1 December 2009 |
| 7 | *BIPRU* 12.2 and *BIPRU* 12.5 to *BIPRU* 12.9 | R | In relation to a *firm* which as at 1 December 2009 is a *full scope BIPRU investment firm* and which is also an *ILAS BIPRU firm*, the sections listed in column (2) do not apply. | 1 December 2009 until 31 October 2010 | 1 December 2009 |
| 8 | *BIPRU* 12.2 and *BIPRU* 12.8 | R | In relation to a *firm* which as at 1 December 2009 is a *non-ILAS BIPRU firm*, the sections listed in column (2) do not apply. | 1 December 2009 until 31 October 2010 | 1 December 2009 |

Guidance for a firm which becomes an ILAS BIPRU firm or non-ILAS BIPRU firm after 1 December 2009

26.3 G *BIPRU* TP 26 applies to a *firm* which becomes either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) on 1 December 2009. A *firm* which becomes an *ILAS BIPRU firm* or *non-ILAS BIPRU firm* after that date and before the end of the transitional period which would otherwise have applied will not therefore have the benefit of those *rules* and will be expected to comply with the *rules* and *guidance* in *BIPRU* 12 from the date on which it becomes either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be).

**TP 27 Application of GENPRU 1.2, BIPRU 12.3 and BIPRU 12.4: all firms to which BIPRU 12 applies**

Application

27.1 R *BIPRU* TP 27 applies to a *firm* which as at 1 December 2009 falls into *BIPRU* 12.1.1R.

Transitional provisions

27.2

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | Material to which the transitional provision applies | | Transitional Provision | Handbook provisions: coming into force |
| 1 | *BIPRU* 12.3 and *BIPRU* 12.4 | R | References to the *overall liquidity adequacy rule* contained in the *rules* and *guidance* in the sections of the Handbook listed in column (2) are replaced by ones to the *overall financial adequacy rule*. | 1 December 2009 |
| 2 | *GENPRU* 1.2.26R | R | For the purposes of complying with *GENPRU* 1.2.26R as regards the adequacy of liquidity resources, a *firm* must apply the *rules* and *guidance* in *BIPRU* 12.3 and *BIPRU* 12.4 instead of applying the *ICAAP rules*. | 1 December 2009 |

Duration and application of BIPRU TP 27.2

27.3 R In relation to each *firm* falling into *BIPRU* 12.1.1R, *BIPRU* TP 27.2 applies in the way described in *BIPRU* TP 27.4.

27.4

| (1) | (2) | (3) | (4) |
|---|---|---|---|
| | | Transitional provision: dates in force | Transitional provision: application |
| 1 | R | 1 December 2009 until 31 May 2010 | A *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LS of *IPRU(BANK)*. |
| 2 | R | 1 December 2009 until 31 May 2010 | Subject to (3), a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with *IPRU(BSOC)*. |
| 3 | R | 1 December 2009 until 30 September 2010 | A *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with *IPRU(BSOC)* and which as at 1 June 2010 has a *simplified ILAS waiver*. |
| 4 | R | 1 December 2009 until 30 September 2010 | A *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of *IPRU(BANK)* and which is not an *incoming EEA firm* or a *third country BIPRU firm*. |
| 5 | R | 1 December 2009 until 31 October 2010 | A *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of *IPRU(BANK)* and which is an *incoming EEA firm* or a *third country BIPRU firm*. |
| 6 | R | 1 December 2009 until 31 October 2010 | A *firm* which as at 1 December 2009 is a *full scope BIPRU investment firm* and which is also an *ILAS BIPRU firm*. |
| 7 | R | 1 December 2009 until 31 October 2010 | A *firm* which as at 1 December 2009 is a *non-ILAS BIPRU firm*. |

Guidance for a firm which becomes an ILAS BIPRU firm or non-ILAS BIPRU firm on 1 December 2009

27.5 G *BIPRU* TP 27 applies to a *firm* which becomes either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) on 1 December 2009. A *firm* which becomes an *ILAS BIPRU firm* or *non-ILAS BIPRU firm* after that date and before the end of the transitional period which would otherwise have applied will not therefore have the benefit of those *rules* and will be expected to comply with the *rules* and *guidance* in

*BIPRU* 12 from the date on which it becomes either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be).

**TP 28 BIPRU 12.3 and BIPRU 12.4: banks with a Global Liquidity Concession**

Application

28.1 R *BIPRU* TP 28 applies to an *incoming EEA firm* or *third country BIPRU firm* which as at 30 November 2009 has a Global Liquidity Concession (as described in *IPRU(BANK)* Chapter LM 4(2)).

Duration of transitional provisions

28.2 R *BIPRU* TP 28 applies until 31 October 2010 or, if earlier, the date on which the *firm's* Global Liquidity Concession expires.

Transitional provisions

28.3

| (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|
| | Material to which the transitional provision applies | | Transitional Provision | Transitional provision: dates in force | Handbook provisions: coming into force |
| 1 | *BIPRU* 12.3 and *BIPRU* 12.4 | R | The *rules* and *guidance* in the sections listed in column (2) do not apply. | 1 December 2009 until 31 October 2010 | 1 December 2009 |

**TP 29 Liquid assets buffer scalar: simplified ILAS BIPRU firms**

Application

29.1 R *BIPRU* TP 29 applies to a *firm* which on 1 June 2010 is a *simplified ILAS BIPRU firm*.

Duration of transitional provisions

29.2 R *BIPRU* TP 29 applies from 1 December 2009 until 30 September 2013.

Transitional provisions

29.3 R A *simplified ILAS BIPRU firm* falling into *BIPRU* TP 29.1 must ensure that:

(1) at all times between 1 October 2010 and 30 September 2011, its liquid assets buffer is no less than 30% of the amount of its *simplified buffer requirement*;

(2) at all times between 1 October 2011 and 30 September 2012, its liquid assets buffer is no less than 50% of its *simplified buffer requirement*; and

(3) at all times between 1 October 2012 and 30 September 2013, its liquid assets buffer is no less than 70% of its *simplified buffer requirement*.

29.4 G The effect of *BIPRU* TP 29.3 is that a *firm* that is a *simplified ILAS BIPRU firm* as at 1 December 2009 has a transitional period of three years within which to build up its liquid assets buffer so that at the end of that period it holds in its buffer assets equal to 100% of its *simplified buffer requirement*.

29.5 G In relation to a *firm* which becomes a *simplified ILAS BIPRU firm* after 1 December 2009 and before 1 October 2010 the *FSA* will consider as part of that *firm's simplified ILAS waiver* application whether it is appropriate to apply the scalar approach described in *BIPRU* TP 29.3 to the *firm* in question and if so from what date that approach should apply. Where the *FSA* agrees that the scalar approach is appropriate, it will incorporate the scalar into the terms of the *firm's simplified ILAS waiver*.

**TP 30 Liquidity floor for certain banks**

Application

30.1 R *BIPRU* TP 30 applies to a *firm* which as at 1 December 2009 is a *standard ILAS BIPRU firm* and which as at 30 November 2009 calculated its liquidity resources in accordance with Chapter LM of *IPRU(BANK)*.

Duration of transitional provisions

30.2 R *BIPRU* TP 30 applies:

(1) in the case of an *incoming EEA firm* or a *third country BIPRU firm*, from 1 November 2010 until the earlier of the date on which the *firm* receives *individual liquidity guidance* from the *FSA* and 30 November 2011; and

(2) in the case of any other *firm*, from 1 October 2010 until the earlier of the date on which the *firm* receives *individual liquidity guidance* from the *FSA* and 30 November 2011.

Transitional provisions

| | | | | |
|---|---|---|---|---|
| 30.3 | R | A *standard ILAS BIPRU firm* falling into *BIPRU* TP 30.1 must ensure that at all times between 1 October 2010 or 1 November 2010 (as relevant) and the expiry of *BIPRU* TP 30 it maintains liquidity resources which are no less in amount than the higher of: | | |
| | | (1) | the amount its assesses as adequate in its *ILAA*; and | |
| | | (2) | the amount that it would have maintained during that period had it calculated its liquidity resources solely in accordance with Chapter LM of *IPRU(BANK)* in the form in which it appeared on 30 September 2010 or 31 October 2010 (as relevant). | |
| 30.4 | R | (1) | For the purpose of *BIPRU* 12.9.14R (Regulatory intervention points for ILAS BIPRU firms) and for the duration of *BIPRU* TP 30, there is added one further event which is to constitute a regulatory intervention point for a *standard ILAS BIPRU firm*. | |
| | | (2) | The further event to which (1) refers is the amount of the *firm's* liquid assets falling below, or being expected to fall below, the level required in *BIPRU* TP 30.3. | |

# Annex C

## Amendments to Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

BIPRU firms and other firms to which BIPRU 8 applies

12.1.13 R If this *rule* applies under *SYSC* 12.1.14R to a *firm*, the *firm* must:

…

(2) ensure that the risk management processes and internal control mechanisms at the level of any *UK consolidation group* or *non-EEA sub-group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:

…

(e) ~~*SYSC* 11.1.11R and *SYSC* 11.1.12R~~; <u>*BIPRU* 12.3.27R and *BIPRU* 12.4.10R</u>;

…

# SUPERVISION MANUAL (INTEGRATED REGULATORY REPORTING OF LIQUIDITY FOR BANKS, BUILDING SOCIETIES AND INVESTMENT FIRMS) INSTRUMENT 2009

## Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power);
(2) section 156 (General supplementary powers); and
(3) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

## Commencement

C. This instrument comes into force as follows:
(1) Part 3 of Annex B comes into force on 1 October 2010;
(2) the remainder of the instrument comes into force on 1 December 2009.

## Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

## Citation

F. This instrument may be cited as the Supervision Manual (Integrated Regulatory Reporting of Liquidity for Banks, Building Societies and Investment Firms) Instrument 2009.

By order of the Board
30 September 2009

## Annex A

## Amendments to the Glossary of definitions

In this Annex, underlining indicates new text unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

| | |
|---|---|
| *defined liquidity group* | a *DLG by default* or *DLG by modification*. |
| *DLG by default* | (in relation to a *UK ILAS BIPRU firm* (a *group liquidity reporting firm*) and any reporting period under *SUP* 16 (Reporting requirements)) the *firm* and each *person* identified in accordance with the following:<br>(a) (in a case in which the *firm* is the only *UK ILAS BIPRU firm* in its *group*) that *person* meets any of the following conditions for any part of that period:<br>(i) that *person* provides material support to the *firm* against *liquidity risk*; or<br>(ii) that *person* is committed to provide such support or would be committed to do so if that *person* were able to provide it; or<br>(iii) the *firm* has reasonable grounds to believe that that *person* would supply such support if asked or would do so if it were able to provide it; or<br>(iv) the *firm* provides material support to that *person* against *liquidity risk*; or<br>(v) the *firm* is committed to provide such support to that *person* or would be committed to do so if the *firm* were able to provide it; or<br>(vi) the *firm* has reasonable grounds to believe that that *person* would expect the *firm* to supply such support if asked or that the *firm* would do so if it were able to provide it; or<br>(b) (in a case in which the *firm* is not the only *UK ILAS BIPRU firm* in its *group*):<br>(i) each of those other *UK ILAS BIPRU firm*; and |

(ii) each *person* identified by applying the tests in (a) separately to the *firm* and to each of those other *UK ILAS BIPRU firms*, so that applying (b) to the *firm* and to each of those *UK ILAS BIPRU firms* results in their having the same *defined liquidity group*.

The following provisions also apply for the purpose of this definition.

(c) A *person* is not a member of a *firm's* DLG by default unless it also satisfies one of the following conditions:

(i) it is a member of the *firm's group*; or

(ii) it is a *securitisation special purpose entity* or a *special purpose vehicle*; or

(iii) it is an *undertaking* whose main purpose is to raise funds for the *firm* or for a *group* to which that *firm* belongs.

(d) *Group* has the meaning in paragraph (1) of the definition in the *Glossary* (the definition in section 421 of the *Act*).

(e) The conditions in (a) are satisfied even if the *firm* or *person* in question provides or is committed or expected to provide support for only part of the period.

(f) In deciding for the purpose of (a) or (b) whether the *firm* is the only *UK ILAS BIPRU firm* in its *group* and identifying which are the other *UK ILAS BIPRU firms* in its *group*, any *group* member that is a member of the group through no more than a *participation* is ignored.

(g) A *firm* has a *DLG by default* for a period even if it only has one during part of that period.

(h) Liquidity support may be supplied by or to the *firm* directly or indirectly.

(i) Support is material if it is material either by reference to the *person* giving it or by reference to the *person* receiving it.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).)

*DLG by modification* either of the following:

(a) a *DLG by modification (firm level)*; or

(b) a *non-UK DLG by modification (DLG level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).)

*DLG by modification (firm level)* (in relation to any reporting period under *SUP* 16 (Reporting requirements) and a *UK ILAS BIPRU firm* that has an *intra-group liquidity modification* during any part of that period (a *group liquidity reporting firm*)) the *firm* and each *person* on whose liquidity support the *firm* can rely, under that *intra-group liquidity modification*, for any part of that period for the purpose of the *overall liquidity adequacy rule* (as the *overall liquidity adequacy rule* applies to the *firm* on a solo basis). A *firm* has a 'DLG by modification (firm level)' for a period even if it only has one during part of that period.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).)

*firm-specific liquidity stress* (in relation to a *firm* and any reporting obligations under *SUP* 16 (Reporting requirements)):

(a) (in the case of reporting obligations on a solo basis (including on the basis of the *firm's UK branch*) the *firm* failing to meet, not complying with or being in breach of:

(i) the liquidity resources requirement calculated by that *firm* as adequate in its current *Individual Liquidity Adequacy Assessment* or *Individual Liquidity Systems Assessment*; or

(ii) the level of its liquid assets buffer advised in any current *individual liquidity guidance* that the *firm* has accepted; or

(iii) its funding profile advised in any current *individual liquidity guidance* that the *firm* has accepted; or

(iv) the *overall liquidity adequacy rule*; or

(v) *BIPRU* 12.2.8R (*ILAS BIPRU firm* adequate buffer of high quality, unencumbered assets) or *BIPRU* 12.2.11R (liquid assets buffer is at least equal to the *simplified buffer requirement*); or

(vi) the *simplified buffer requirement* (taking into account *BIPRU* TP 29 (Liquid assets buffer scalar: simplified ILAS BIPRU firms) unless this has been superseded by *individual liquidity guidance* that it has accepted; or

(vii) any requirement imposed by or under the *regulatory system* under which the *firm* must hold a specified level of liquidity resources;

or it being likely that the *firm* will do so;

(b) (in the case of reporting obligations with respect to the *firm* and a group of other *persons*) has the same meaning as in (a) except that references to any *rule* or other requirement, *Individual Liquidity Adequacy Assessment*, *Individual Liquidity Systems Assessment* or *individual liquidity guidance* are to any such thing so far as it applies to the *firm* and that group considered together.

| | |
|---|---|
| *group liquidity low frequency reporting conditions* | (in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity low frequency reporting conditions if the *defined liquidity group* meets the following conditions:<br><br>(a) the *firm* or any other member is a *low frequency liquidity reporting firm*; and<br><br>(b) no member of that group is a *standard frequency liquidity reporting firm*.<br><br>For the purpose of deciding whether these conditions are met in relation to a *DLG by default*, any group member (other than the *group liquidity reporting firm* itself) that is a member of the group through no more than a *participation* is ignored. |
| *group liquidity reporting firm* | see the definitions of *DLG by default*, *DLG by modification (firm level)*, and *non-UK DLG by modification (DLG level)*.<br><br>(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).) |
| *group liquidity standard frequency reporting conditions* | (in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity standard frequency reporting conditions if the group does not meet the *group liquidity low frequency reporting conditions*. |
| *low frequency liquidity reporting firm* | any of the following:<br><br>(a) a *simplified ILAS BIPRU firm*; or<br><br>(b) a *standard ILAS BIPRU firm* whose most recent *annual report and accounts* show balance sheet assets of less than £1 billion (or its equivalent in foreign currency translated into sterling at the balance sheet date); or<br><br>(c) a *standard ILAS BIPRU firm* that meets the following conditions: |

(i) it does not have any *annual report and accounts* and it has been too recently established to be required to have produced any;

(ii) it has submitted a projected balance sheet to the *FSA* as part of an application for a *Part IV permission* or a variation of one; and

(iii) the most recent such balance sheet shows that the *firm* will meet the size condition set out in (b) in all periods covered by those projections.

Paragraphs (b) and (c) apply at the level of the *firm* rather than of the *branch* in the case of any *firm* reporting on the basis of the activities of its branch operation in the *United Kingdom*.

| | |
|---|---|
| *market liquidity stress* | (in relation to a *firm* and any reporting obligations under *SUP* 16 (Reporting requirements)):<br>(a) (in the case of reporting obligations on a solo basis) any market that is of material significance to the *firm* being materially adversely affected by crystallised *liquidity risk* or a substantial number of participants in any such market being materially adversely affected by crystallised *liquidity risk*, whether or not the *firm* itself is so affected;<br>(b) (in the case of reporting obligations with respect to the *firm* and a group of other persons) has the same meaning as in (a) except that references to the *firm* are to the *firm* and that group considered together;<br>(c) (in the case of reporting obligations with respect to a *firm's UK branch*) has the same meaning as in (a) except that references to the *firm* are to that *branch*. |
| *material currency* | (a) *Material currencies*, in respect of a *firm* at any time, are currencies determined in accordance with the following.<br>(b) First, the amount of its assets and the amount of its liabilities in each currency (ignoring the sign) are separately calculated. The figures are as shown in the most recent *data item* FSA054 submitted to the *FSA*.<br>(c) Then, each such amount is converted into the reporting currency for the *data item* referred to in (b).<br>(d) Each currency (which may include the reporting currency) that represents 20% or more of the total asset figure or 20% or more of the total liabilities figure is a *material currency*. |

(e) A currency is also a *material currency* if it is identified by the *firm's* current:

(i) *Individual Liquidity Adequacy Assessment*; or

(ii) *Individual Liquidity Systems Assessment*; or

(iii) *ILG* that has been accepted by the *firm*;

as being significant in the context of cross-currency *liquidity risk* (as referred to in *BIPRU* 12.5 (Individual Liquidity Adequacy Standards)).

(f) The conversion rate for a currency into the reporting currency is the exchange rate on the date as of which the calculation is being made.

(g) The reporting currency means the currency in which the most recent *data item* FSA054 (as referred to in (b)) is reported.

(h) A currency is a *material currency* in relation to a *firm's branch* or a *defined liquidity group* of which it is a *group liquidity reporting firm* if it is identified as such in accordance with the procedures in the previous paragraphs of this definition except that the identification is carried out by reference to that *branch* or *defined liquidity group*. For these purposes, *data item* FSA054 for the *reporting level* concerned is used.

(i) If the *firm* has not delivered *data item* FSA054 to the *FSA* at the *reporting level* concerned or is currently not required to do so at the *reporting level* concerned, the calculation is carried out using the methods for drawing up *data item* FSA054.

*non-UK DLG by modification* either of the following:

(a) a *non-UK DLG by modification (firm level)*; or

(b) a *non-UK DLG by modification (DLG level)*.

*non-UK DLG by modification (firm level)* (in relation to a *group liquidity reporting firm*) a *DLG by modification (firm level)* that is not a *UK DLG by modification*. A *firm* with a *non-UK DLG by modification (firm level)* cannot also have a *UK DLG by modification*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).)

| | |
|---|---|
| *non-UK DLG by modification (DLG level)* | (in relation to any reporting period under *SUP* 16 (Reporting requirements) and in relation to a *firm* that meets the following conditions (a group liquidity reporting firm):<br><br>(a) it is a *UK ILAS BIPRU firm* with an *intra-group liquidity modification*;<br><br>(b) it is a *group liquidity reporting firm* in a *UK DLG by modification* created by that *intra-group liquidity modification*;<br><br>(c) the *overall liquidity adequacy rule* applies under that *intra-group liquidity modification* to that *UK DLG by modification*; and<br><br>(d) that *UK DLG by modification* can rely, under that *intra-group liquidity modification*, for any part of that period, on a group of other *persons* for the purpose of the *overall liquidity adequacy rule* as applied to that *UK DLG by modification*);<br><br>means the group made up of the following:<br><br>(e) that *ILAS BIPRU firm*;<br><br>(f) the other members of that *UK DLG by modification*; and<br><br>(g) the group of other *persons* mentioned in (d).<br><br>A *firm* has a 'non-UK DLG by modification (DLG level)' for a period even if it only has one during part of that period.<br><br>(*Guidance* about this definition, and its inter-relation with other new definitions, is set out in *SUP* 16 Annex 26G (Guidance on designated liquidity groups in *SUP* 16.12).) |
| *non UK lead regulated firm* | a *firm* that is not a *UK lead regulated firm*. This definition is not related to the defined term *lead regulated firm*. |
| *reporting level* | (in *SUP* 16 (Reporting requirements) and in relation to a *data item*) refers to whether that *data item* is prepared on a solo basis or on the basis of a group such as a *UK DLG by modification* and, if it is prepared on the basis of a group, refers to the type of group (such as a *UK DLG by modification* or a *non-UK DLG by modification (firm level)*). |
| *simplified ILAS BIPRU firm* | an *ILAS BIPRU firm* that, in accordance with the procedures in *BIPRU* 12 (Liquidity), is using the *simplified ILAS*. |
| *standard frequency liquidity reporting firm* | a *standard ILAS BIPRU firm* that is not a *low frequency liquidity reporting firm*. |

| | |
|---|---|
| *standard ILAS BIPRU firm* | an *ILAS BIPRU firm* that is not a *simplified ILAS BIPRU firm*. |
| *UK DLG by modification* | a *DLG by modification (firm level)* in which each member is a *UK ILAS BIPRU firm*. A *firm* with a *UK DLG by modification* cannot also have a *non-UK DLG by modification (firm level)*. |
| *UK lead regulated firm* | a *UK firm* that:<br><br>(a) is not part of a group that is subject to consolidated supervision by the *FSA* or any other *regulatory body*; or<br><br>(b) is part of a group that is subject to consolidated supervision by the *FSA* and that group is not part of a wider group that is subject to consolidated supervision by a *regulatory body* other than the *FSA*.<br><br>For the purposes of this definition:<br><br>(c) Consolidated supervision of a group of *persons* means supervision of the adequacy of financial and other resources of that group on a consolidated basis. For example, this includes supervision under *BIPRU* 8 (Group risk consolidation).<br><br>(d) It is not relevant whether or not any supervision by another *regulatory body* has been assessed as equivalent under the *CRD* or the *Financial Groups Directive*.<br><br>(e) If the group is a *UK consolidation group* or *financial conglomerate* of which the *FSA* is lead regulator that is headed by an *undertaking* that is not itself the *subsidiary undertaking* of another *undertaking* the *firm* is a 'UK lead regulated firm'.<br><br>This definition is not related to the defined term *lead regulated firm*. |

Amend the following as shown.

| | |
|---|---|
| *lead regulated firm* | a *firm* which is the subject of the financial supervision requirements of an *overseas regulator* in accordance with an agreement between the *FSA* and that regulator relating to the financial supervision of *firms* whose head office is within the country of that regulator.<br><br><u>This definition is not related to the defined terms *UK lead regulated firm* or *non UK lead regulated firm*.</u> |

# Annex B

## Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

**Part 1: Comes into force on 1 December 2009**

Insert the following new text in the Transitional Provisions. The text is not underlined.

SUP TP 1 Transitional provisions

…

SUP TP 1.2

| (1) | (2) Material to which the transitional provision applies | (3) | (4) Transitional provision | (5) Transitional provision: dates in force | (6) Handbook provision: coming into force |
|---|---|---|---|---|---|
| … | | | | | |
| 12T | *SUP* 16.12.5R to *SUP* 16.12.7R;<br><br>*SUP* 16.12.10R to *SUP* 16.12.17R;<br><br>*SUP* 16.12.22R to *SUP* 16.12.27R | R | (1) This *rule* deals with:<br><br>(a) the date (the "start date") on which the requirements (the "new requirements") relating to *data items* FSA047 to FSA055 (inclusive) (the "new *data items*") made by the Supervision Manual (Integrated Regulatory Reporting of Liquidity for Banks, Building Societies and Investment Firms) Instrument 2009 (the "instrument") begin;<br><br>(b) the date on which the requirements relating to *data items* FSA010 and FSA013 end; and<br><br>(c) the date on which the changes in the requirements relating to *data item* FSA011 made by the instrument take effect.<br><br>(2) The start date for reporting on a solo basis for a *firm* that as at 30 November 2009 or, as the case may be, 1 December 2009, or as the case may be, 30 November 2009 and 1 June 2010, falls into one of the classes covered by *BIPRU* TP 26.2 (Transitional rules for quantitative aspects of *BIPRU* 12 that apply to all *firms* to which *BIPRU* 12 applies) is the day immediately following the last day on which that transitional provision is in force as specified in column (5) of *BIPRU* TP 26.2. | As set out in column (4) | As set out in column (4) |

(3) The start date for reporting on a solo basis for other *firms* (other than a *non-ILAS BIPRU firm*) is 1 December 2009.

(4) The reporting period for the first report on a solo basis for *non-ILAS BIPRU firms* ends on 31 December 2010.

(5) Reporting on the basis of a *defined liquidity group* applies for all reporting periods beginning on or after 1 November 2010.

(6) For a *firm* falling into paragraph (2), the following start dates apply to the following *data items*.

(a) The date for *data items* FSA047, FSA048 and FSA052 is 1 June 2010.

(b) The date for *data items* FSA050, FSA051, FSA053 and FSA054 is 1 November 2010.

(7) For a *firm* falling into paragraph (3), the following start dates apply to the following *data items*.

(a) The date for *data items* FSA047 and FSA048 is 1 December 2009.

(b) The date for *data item* FSA052 is 1 June 2010.

(c) The date for *data items* FSA050, FSA051, FSA053 and FSA054 is 1 November 2010.

(8) If the start date under paragraphs (6) or (7) (taking into account paragraph (9)) falls before the start date in paragraphs (2) or (3), the dates in paragraphs (2) or (3) apply. However if the start date in paragraphs (6) or (7) (taking into account paragraph (9)) fall after the dates in paragraphs (2) or (3), the start dates in paragraphs (6) or (7) apply.

(9) If the start date for a new *data item* occurs part of the way through what would have been a reporting period for that *data item* under *SUP* 16.12 if the relevant part of *SUP* 16.12 had been in force, the first reporting period for that *data item* begins on the first day ("the first day") of what would have been that reporting period (as specified in *SUP* 16.12), even though the first day falls before the start date. The time for submission of the *data item* and the length of the reporting period are calculated as if the new requirements relating to that *data item* had been in force from the first day.

(10) (a) The requirements relating to *data items* FSA010 and FSA013 are as follows.

(b) If a *firm* does not fall into *RAG* 1 as at 30 November 2009, it does not have to submit these *data items*.

| | | | | | |
|---|---|---|---|---|---|
| | | | (c) Otherwise, the last reporting period for the *data item* concerned ends on the first date when the start date for that *firm* in relation to both *data item* FSA047 and FSA048 has occurred. That last reporting period for *data item* FSA010 or FSA013 is shortened accordingly if necessary.<br><br>(d) Any notes in *SUP* 16.12 relating to those *data items* continue in force as long as required by (a) to (c).<br><br>(11) The changes to *data item* FSA011 only take effect with respect reporting periods beginning on or after the commencement date for those changes as specified in the instrument (1 October 2010). | | |
| 12U | *SUP* 16.12.5R to *SUP* 16.12.7R; *SUP* 16.12.10R to *SUP* 16.12.17R; *SUP* 16.12.22R to *SUP* 16.12.27R | G | The effect of paragraph 12T is that a *firm* which becomes an *ILAS BIPRU firm* or *non-ILAS BIPRU firm* after 1 December 2009 and before the end of the transitional period which would otherwise have applied will be expected to comply with the requirements listed in column (2) from the date on which it becomes either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be). However such a *firm* does have the benefit of the delayed start dates as specified in paragraphs (4), (5) and (7) of paragraph 12T. | | |
| 12V | *SUP* 16.12.5R to *SUP* 16.12.7R; *SUP* 16.12.10R to *SUP* 16.12.17R; *SUP* 16.12.22R to *SUP* 16.12.27R | G | An example of how paragraph 12T(6) and (9) work is as follows. Say that the start date for a *firm* under paragraph 12T(2) is 1 June 2010. If the *firm* reports *data item* FSA047 weekly, the first reporting period for that *data item* starts on Saturday 29 May 2010 and ends on Friday 4 June 2010. It has to be submitted to the *FSA* by 2200 on Monday 7 June. | | |
| 12W | *SUP* 16.12.5R to *SUP* 16.12.7R | R | If *BIPRU* TP 30.4R (Liquidity floor for certain banks) applies to a *firm* the regulatory intervention point mentioned in that *rule* is added to the list in paragraph (a) of the definition of *firm-specific liquidity stress* in the case of that *firm* for as long as *BIPRU* TP 30.4R applies to it. | For as long as *BIPRU* TP 30.4R applies to the *firm* | At the end of period set out in column (5) |

…

**Part 2: Comes into force on 1 December 2009**

**16 Reporting requirements**

**16.3 General provisions on reporting**

…

16.3.26 G Examples of reports covering a *group* are:

…

(5) consolidated reporting statements required from *securities and futures firms* under *SUP* 16.7.24R;

(6) reporting in relation to *defined liquidity groups* under *SUP* 16.12.

…

**16.12 Integrated Regulatory Reporting**

…

16.12.3A G The following is designed to assist *firms* to understand how the reporting requirements set out in this chapter operate when the circumstances set out in *SUP* 16.12.3 R (1)(a)(ii) apply.

(1) Example 1

A *BIPRU 730K firm* that undertakes activities in both *RAG* 3 and *RAG* 7

Overlaying the requirements of *RAG* 3 (data items) with the requirements of *RAG* 7 shows the following:

| RAG 3 (SUP 16.12.11R) data items | RAG 7 (SUP 16.12.22AR) data items |
|---|---|
| … | |
| Securitisation | Securitisation |
| Daily Flows (if it is an *ILAS BIPRU firm*) | |
| Enhanced Mismatch Report (if it is an *ILAS BIPRU firm*) | |
| Liquidity Buffer Qualifying Securities (if it is an *ILAS BIPRU firm*) | |

| | |
|---|---|
| Funding Concentration (if it is an *ILAS BIPRU firm*) | |
| Pricing data (if it is an *ILAS BIPRU firm*) | |
| Retail and corporate funding (if it is an *ILAS BIPRU firm*) | |
| Currency Analysis (if it is a *ILAS BIPRU firm*) | |
| Systems and Controls Questionnaire (if it is a *non-ILAS BIPRU firm*) | |

…

(2) Example 2

A *UK bank* in *RAG* 1 that also carries on activities in *RAG* 5

Again, overlaying the *RAG* 1 reporting requirements with the requirements for a *RAG* 5 *firm* gives the following :

| RAG 1 requirements (SUP 16.12.5R) | RAG 5 requirements (SUP 16.12.18AR) |
|---|---|
| … | |
| Securitisation | |
| Daily Flows (if it is an *ILAS BIPRU firm*) | |
| Enhanced Mismatch Report (if it is an *ILAS BIPRU firm*) | |
| Liquidity Buffer Qualifying Securities (if it is an *ILAS BIPRU firm*) | |
| Funding Concentration (if it is an *ILAS BIPRU firm*) | |

| | |
|---|---|
| Pricing data (if it is an *ILAS BIPRU firm*) | |
| Retail and corporate funding (if it is an *ILAS BIPRU firm*) | |
| Currency Analysis (if it is an *ILAS BIPRU firm*) | |
| | Lending - Business flow and rates |
| | … |

…

16.12.4A G …

Group liquidity reporting

16.12.4B G Reporting at group level for liquidity purposes by *firms* falling within *BIPRU* 12 (Liquidity) is by reference to *defined liquidity groups*. *Guidance* about the different types of *defined liquidity groups* and related material is set out in *SUP* 16 Annex 26 (Guidance on designated liquidity groups in *SUP* 16.12).

Regulated Activity Group 1~~: Applicable data items~~

16.12.5 R The applicable *data items* and forms or reports referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

| Description of data item | Prudential category of firm and applicable data items (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *UK bank* | *Building society* | *Non-EEA bank* | *EEA bank* that has *permission* to accept deposits, other than one with permission for cross border services only | *EEA bank* that does not have permission to accept deposits, other than one with permission for cross border services only | Electronic money institutions | *Credit union* | *Dormant account fund operator* (note 15) |
| … | | | | | | | | |
| Liquidity (other than stock) | ~~FSA010 (note 3)~~ | FSA011 | ~~FSA010~~ | ~~FSA010~~ | ~~FSA012~~ | FSA025 | | CQ; CY |
| ~~Liquidity - stock~~ | ~~FSA013 (note 3)~~ | | | | | | | |
| … | | | | | | | | |
| Securitisation | … | | | | | | | |
| Daily Flows | FSA047 (Notes 16, 20 and 22) | FSA047 (Notes 16, 20 and 22) | FSA047 (Notes 16, 18, 20 and 22) | FSA047 (Notes 16, 18, 20 and 22) | FSA047 (Notes 16, 18, 20 and 22) | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Enhanced Mismatch Report | FSA048 (Notes 16, 20 and 22) | FSA048 (Notes 16, 20 and 22) | FSA048 (Notes 16, 18, 20 and 22) | FSA048 (Notes 16, 18, 20 and 22) | FSA048 (Notes 16, 18, 20 and 22) | | | |
| Liquidity Buffer Qualifying Securities | FSA050 (Notes 17, 21 and 22) | FSA050 (Notes 17, 21 and 22) | FSA050 (Notes 17, 19, 21 and 22) | FSA050 (Notes 17, 19, 21 and 22) | FSA050 (Notes 17, 19, 21 and 22) | | | |
| Funding Concentration | FSA051 (Notes 17, 21 and 22) | FSA051 (Notes 17, 21 and 22) | FSA051 (Notes 17, 19, 21 and 22) | FSA051 (Notes 17, 19, 21 and 22) | FSA051 (Notes 17, 19, 21 and 22) | | | |
| Pricing data | FSA052 (Notes 17, 21 and 22) | FSA052 (Notes 17, 21 and 22) | FSA052 (Notes 17, 19, 21 and 22) | FSA052 (Notes 17, 19, 21 and 22) | FSA052 (Notes 17, 19, 21 and 22) | | | |
| Retail and corporate funding | FSA053 (Notes 17, 21 and 22) | FSA053 (Notes 17, 21 and 22) | FSA053 (Notes 17, 19, 21 and 22) | FSA053 (Notes 17, 19, 21 and 22) | FSA053 (Notes 17, 19, 21 and 22) | | | |
| Currency Analysis | FSA054 (Notes 17, 21 and 22) | FSA054 (Notes 17, 21 and 22) | FSA054 (Notes 17, 19, 21 and 22) | FSA054 (Notes 17, 19, 21 and 22) | FSA054 (Notes 17, 19, 21 and 22) | | | |
| … | | | | | | | | |

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| Note 3 | ~~A *UK bank* is not required to submit both FSA010 and FSA013. A *UK bank* which monitors its liquidity according to the maturity mismatch approach as set out in *IPRU(BANK)* LM must submit FSA010. A *UK bank* which monitors its liquidity according to the sterling stock liquidity approach as set out in *IPRU(BANK)* LS must submit FSA013. FSA013 will generally be provided on a consolidated basis and members of the consolidated group will not be required to report individually.~~ [deleted] |
| … | |
| Note 15 | … |
| Note 16 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis (including on the basis of the *firm's UK branch*). Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.<br><br>(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.<br><br>(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 17 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis (including on the basis of the *firm's UK branch*) unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 18 | (1) If the *firm* has a *whole-firm liquidity modification* it must complete this item on the basis of the whole *firm* (or at any other *reporting level* the *whole-firm liquidity modification* may require) and not just its *UK branch*.<br><br>(2) Otherwise the *firm* must complete this item by reference to the activities of its branch operation in the *United Kingdom* in accordance with *SUP* 16.12.3R(1)(a)(iv). |

| | |
|---|---|
| Note 19 | (1) If the *firm* has a *whole-firm liquidity modification* there is no obligation to report this item.<br><br>(2) Otherwise the *firm* must complete this item by reference to the activities of its branch operation in the *United Kingdom* in accordance with *SUP* 16.12.3R(1)(a)(iv). |
| Note 20 | (1) This item must be reported in the reporting currency.<br><br>(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.<br><br>(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:<br><br>(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or<br><br>(b) the only *material currency* is the reporting currency;<br><br>(3) does not apply.<br><br>(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.<br><br>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.<br><br>(b) Take the three largest figures from the resulting list of amounts.<br><br>(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.<br><br>(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona). |
| Note 21 | Note 20 applies, except that paragraph (3) does not apply, meaning that *material currencies* must not be recorded separately. |

| | |
|---|---|
| Note 22 | Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* or a *whole-firm liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification*, *whole-firm liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* or a *whole-firm liquidity modification* says to the contrary. |

16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in *SUP* 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| *Data item* | Unconsolidated *UK banks* and *building societies* | Solo consolidated *UK banks* and *building societies* | Report on a *UK consolidation group* or, as applicable, *defined liquidity group* basis by *UK banks* and *building societies* | Other members of *RAG* 1 |
|---|---|---|---|---|
| … | | | | |
| ~~FSA010~~ | ~~Quarterly~~ | | | ~~Quarterly~~ |
| … | | | | |
| ~~FSA012~~ | | | | ~~Half yearly~~ |
| ~~FSA013~~ | ~~Quarterly~~ | | ~~Quarterly (note 4)~~ | |
| FSA046 | … | | | |
| FSA047 | Daily, weekly, monthly or quarterly (Notes 4, 6 and 9) | Daily, weekly, monthly or quarterly (Notes 4,5, 6 and 9) | Daily, weekly, monthly or quarterly (Notes 4, 8 and 9) | Daily, weekly, monthly or quarterly (Notes 4,7 and 9) |

| | | | | |
|---|---|---|---|---|
| FSA048 | Daily, weekly, monthly or quarterly (Notes 4, 6 and 9) | Daily, weekly, monthly or quarterly (Notes 4,5, 6 and 9) | Daily, weekly, monthly or quarterly (Notes 4, 8 and 9) | Daily, weekly, monthly or quarterly (Notes 4,7 and 9) |
| FSA050 | Monthly (Note 4) | Monthly (Notes 4 and 5) | Monthly (Note 4) | Monthly (Note 4) |
| FSA051 | Monthly (Note 4) | Monthly (Notes 4 and 5) | Monthly (Note 4) | Monthly (Notes 4) |
| FSA052 | Weekly or monthly (Notes 4 and 10) | Weekly or monthly (Notes 4, 5 and 10) | Weekly or monthly (Notes 4 and 11) | Weekly or monthly (Notes 4 and 10) |
| FSA053 | Quarterly (Note 4) | Quarterly (Notes 4 and 5) | Quarterly (Note 4) | Quarterly (Note 4) |
| FSA054 | Quarterly (Note 4) | Quarterly (Notes 4 and 5) | Quarterly (Note 4) | Quarterly (Note 4) |
| Note 1 | … | | | |
| Note 4 | ~~The *firms* covered by the consolidation for FSA013 may differ from those companies in the *UK consolidation group*.~~ Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:<br><br>(1) A week means the period beginning on Saturday and ending on Friday.<br><br>(2) A month begins on the first day of the calendar month and ends on the last day of that month.<br><br>(3) Quarters end on 31 March, 30 June, 30 September and 31 December.<br><br>(4) Daily means each *business day*.<br><br>All periods are calculated by reference to London time.<br><br>Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* or a *whole-firm liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification*, *whole-firm liquidity modification* or variation part of the way through such a period, unless the *whole-firm liquidity modification* or *intra-group liquidity modification* says otherwise. | | | |

| | |
|---|---|
| Note 5 | As specified in *SUP* 16.12.5R, solo consolidation has no application to liquidity reporting. Therefore it does not make any difference to the reporting of this item whether or not the *firm* is solo consolidated. |
| Note 6 | If the report is on a solo basis (and the *firm* is a *UK firm*) the reporting frequency is as follows:<br>(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br>(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br>(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*. |
| Note 7 | (1) If the report is on a solo basis (and the *firm* is not a *UK firm*) the reporting frequency is as follows:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm.*<br>(2) If the *firm* has a *whole-firm liquidity modification* (1) does not apply and instead the frequency of solo reporting is quarterly (or whatever other frequency the *whole-firm liquidity modification* requires). |
| Note 8 | (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:<br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br>(b) monthly if the *group liquidity low frequency reporting conditions* are met. |

| | |
|---|---|
| | (2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly. |
| Note 9 | (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm*, *branch* or group in question.<br><br>(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm*, *branch* or group in question.<br><br>(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected. |
| Note 10 | If the report is on a solo basis (including by reference to the *firm's UK branch*) the reporting frequency is as follows:<br><br>(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(2) monthly if the *firm* is a *low frequency liquidity reporting firm*. |
| Note 11 | If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(1) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(2) monthly if the *group liquidity low frequency reporting conditions* are met. |

16.12.7 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.6R, unless indicated otherwise.

| *Data item* | Daily | Weekly | Monthly submission | Quarterly submission | Half yearly submission | Annual submission |
|---|---|---|---|---|---|---|
| … | | | | | | |
| ~~FSA010~~ | | | | ~~15 *business days*~~ | | |
| … | | | | | | |
| ~~FSA012~~ | | | | | ~~30 *business days*~~ | |
| ~~FSA013~~ | | | | ~~15 *business days*~~ | | |
| … | | | | | | |
| FSA046 | … | | | | | |
| FSA047 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 5) | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA048 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 5) | | |
| FSA050 | | | 15 *business days* | | | |
| FSA051 | | | 15 *business days* | | | |
| FSA052 | | 22.00 hours (London time) on the second *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA053 | | | | 15 *business days* | | |
| FSA054 | | | | 15 *business days* | | |
| Note 1 | … | | | | | |
| Note 5 | It is one *Month* if the report relates to a *non-UK DLG by modification* or the *firm* has a *whole-firm liquidity modification*. | | | | | |

…

Regulated Activity Group 2.2

16.12.9 R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below.

…

| | *Member's adviser* (note 3) | | the *Society* (note 1) | | |
|---|---|---|---|---|---|
| Description of *data item* and *data item* | Frequency | Submission deadline | Description of *data item* | Frequency | Submission deadline |
| … | | | | | |
| Quarterly reporting statement | | | | | |
| Balance Sheet | | | | | |
| FSA001 (notes ~~4,~~15, 20) or | Quarterly or half yearly | (note 14) | | | |
| FSA029 | Quarterly (note 14) | (note 14) | | | |
| Income Statement | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| FSA002 (note~~s~~ ~~4,~~ 20), or<br><br>FSA030 | Quarterly or half yearly (note 14)<br><br>Quarterly | (note 14)<br><br>(note 14) | | | |
| Capital Adequacy | | | | | |
| … | | | | | |
| Credit Risk<br><br>FSA004 (notes ~~4,~~ 5, 20) | Quarterly or half yearly (note 14) | (note 14) | | | |
| Market Risk | | | | | |
| FSA005 (notes ~~4,~~ 6, 20) | Quarterly or half yearly (note 14) | (note 14) | | | |
| ~~Market Risk Supplementary~~<br><br>~~FSA006 (note 7)~~ | ~~Quarterly~~ | ~~20 business days~~ | | | |
| ~~Operational Risk~~<br><br>~~FSA007 (notes 8, 9)~~ | ~~Annually (note 18)~~ | ~~2 months~~ | | | |
| Large Exposures<br><br>FSA008 (note~~s~~ ~~4,~~ 20) | Quarterly | 20 business days (note 19) | | | |
| ~~Solo consolidation~~<br><br>~~FSA016 (note 17)~~ | ~~Half yearly~~ | ~~30 business days~~ | | | |

| | | | | | |
|---|---|---|---|---|---|
| ~~UK integrated large exposures~~<br><br>~~FSA018 (note 11)~~ | ~~Quarterly~~ | ~~45 business days~~ | | | |
| ~~Pillar 2 questionnaire~~<br><br>~~FSA019 (note 10)~~ | ~~Annually~~ | ~~2 months~~ | | | |
| ~~Non-EEA subgroup~~<br><br>~~FSA028~~ | ~~Half yearly~~ | ~~30 business days~~ | | | |
| ~~IRB portfolio risk~~<br><br>~~FSA045 (note 16)~~ | ~~Quarterly or Half Yearly (note 14~~ | ~~(note 14)~~ | | | |
| Note 1 | … | | | | |
| Note 7 | ~~Only applicable to firms with a VaR model permission.~~ [deleted] | | | | |
| Note 8 | ~~This will not be applicable to BIPRU limited activity firms or BIPRU limited licence firms unless they have a waiver under BIPRU 6.1.2G.~~ [deleted] | | | | |
| Note 9 | ~~This is only applicable to a firm that has adopted, in whole or in part, either the standardised approach, alternative standardised approach, or advanced measurement approach under BIPRU 6.~~ [deleted] | | | | |
| Note 10 | ~~Only applicable to BIPRU investment firms that:~~<br><br>~~(a) are subject to consolidated supervision under BIPRU 8, except those that are either included within the consolidated supervision of a group that includes a UK credit institution, or that have been granted an investment firm consolidation waiver; or~~<br><br>~~(b) have been granted an investment firm consolidation waiver; or~~ | | | | |

| | |
|---|---|
| | ~~(c) are not subject to consolidated supervision under BIPRU 8.~~<br><br>~~A BIPRU investment firm under (a) must complete the report on the basis of its UK consolidation group. A BIPRU investment firm under (b) or (c) must complete the report on the basis of its solo position.~~ [deleted] |
| Note 11 | ~~Members of a UK integrated group should only submit this data item at the UK integrated group level.~~ [deleted] |
| … | |
| Note 16 | ~~Only applicable to *firms* that have an *IRB permission*.~~ [deleted] |
| Note 17 | ~~Only applicable to a *firm* that has a *solo consolidation waiver*.~~ [deleted] |
| Note 18 | ~~The annual reporting date for this *data item* is six months after a *firm's* most recent *accounting reference date*.~~ [deleted] |
| … | |

16.12.9A G A *Member's adviser* that is also a *BIPRU investment firm* will also fall under one of the higher number *RAGs* that apply to *BIPRU investment firms*. That means that it will have to report a number of *data items* in addition to the ones that it has to supply under *RAG* 2.2.

Regulated Activity Group 3

16.12.10 R (1) *SUP* 16.12.11R to *SUP* 16.12.13R do not apply to:

(a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));

…

16.12.11 R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

| Description of *data item* | *Firms* prudential category and applicable *data items* (note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *BIPRU firms* (note 17) | | | *Firms* other than *BIPRU firms* | | | | |
| | 730K | 125K and *UCITS investment firms* | 50K | *IPRU(INV)* Chapter 3 | *IPRU(INV)* Chapter 5 | *IPRU(INV)* Chapter 9 | *IPRU(INV)* Chapter 13 | *UPRU* |
| … | | | | | | | | |
| Securitisation | … | | | | | | | |
| Daily Flows | FSA047 (Notes 26, 29 and 31) | | | | | | | |
| Enhanced Mismatch Report | FSA048 (Notes 26, 29 and 31) | | | | | | | |
| Liquidity Buffer Qualifying Securities | FSA050 (Notes 27, 30 and 31) | | | | | | | |
| Funding Concentration | FSA051 (Notes 27, 30 and 31) | | | | | | | |
| Pricing data | FSA052 (Notes 27, 30 and 31) | | | | | | | |
| Retail and corporate funding | FSA053 (Notes 27, 30 and 31) | | | | | | | |
| Currency Analysis | FSA054 (Notes 27, 30 and 31) | | | | | | | |
| Systems and Controls Questionnaire | FSA055 (Note 28) | | | | | | | |
| | … | | | | | | | |

| | |
|---|---|
| Note 25 | … |
| Note 26 | A *firm* must complete this item separately on each of the following bases (if applicable).<br><br>(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.<br><br>(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.<br><br>(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 27 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 28 | If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone. |
| Note 29 | (1) This item must be reported in the reporting currency.<br><br>(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.<br><br>(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:<br><br>(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or<br><br>(b) the only *material currency* is the reporting currency;<br><br>(3) does not apply. |

| | |
|---|---|
| | (4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.<br><br>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.<br><br>(b) Take the three largest figures from the resulting list of amounts.<br><br>(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.<br><br>(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona). |
| Note 30 | Note 29 applies, except that paragraph (3) does not apply, meaning that *material currencies* must not be recorded separately. |
| Note 31 | Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary. |

16.12.11A G The columns in the table in *SUP* 16.12.11R that deal with *BIPRU 50K firms* and *BIPRU 125K firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*. In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.

16.12.12 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.4R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| *Data item* | *BIPRU 730K firm* | *BIPRU 125K firm* and *UCITS investment firm* | *BIPRU 50K firm* | *UK consolidation group* or *defined liquidity group* | *Firm* other than *BIPRU firms* |
|---|---|---|---|---|---|
| … | | | | | |
| FSA046 | … | | | | |
| FSA047 | Daily, weekly, monthly or quarterly (Notes 5, 6 and 8) | | | Daily, weekly, monthly or quarterly (Notes 5, 7 and 8) | |
| FSA048 | Daily, weekly, monthly or quarterly (Notes 5, 6 and 8) | | | Daily, weekly, monthly or quarterly (Notes 5, 7 and 8) | |
| FSA050 | Monthly (Note 5) | | | Monthly (Note 5) | |
| FSA051 | Monthly (Note 5) | | | Monthly (Note 5) | |
| FSA052 | Weekly or monthly (Notes 5 and 9) | | | Weekly or monthly (Notes 5 and 10) | |
| FSA053 | Quarterly (Note 5) | | | Quarterly (Note 5) | |
| FSA054 | Quarterly (Note 5) | | | Quarterly (Note 5) | |

| | | | |
|---|---|---|---|
| FSA055 | Annually (Note 5) | Annually (Note 5) | |
| … | | | |
| Note 4 | … | | |
| Note 5 | Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:<br>(1) A week means the period beginning on Saturday and ending on Friday.<br>(2) A month begins on the first day of the calendar month and ends on the last day of that month.<br>(3) Quarters end on 31 March, 30 June, 30 September and 31 December.<br>(4) Daily means each *business day*.<br>All periods are calculated by reference to London time.<br>Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise. | | |
| Note 6 | If the report is on a solo basis the reporting frequency is as follows:<br>(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br>(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*; | | |

| | |
|---|---|
| | (3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*. |
| Note 7 | (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly. |
| Note 8 | (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected. |
| Note 9 | If the report is on a solo basis the reporting frequency is as follows:<br><br>(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(2) monthly if the *firm* is a *low frequency liquidity reporting firm*. |
| Note 10 | If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(1) weekly if the *group liquidity standard frequency reporting conditions* are met; |

| | | |
|---|---|---|
| | (2) | monthly if the *group liquidity low frequency reporting conditions* are met. |

16.12.13 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.12R, unless indicated otherwise.

| Data item | Daily | Weekly | Monthly submission | Quarterly submission | Half yearly submission | Annual submission |
|---|---|---|---|---|---|---|
| … | | | | | | |
| FSA046 | … | | | | | |
| FSA047 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA048 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |
| FSA050 | | | 15 *business days* | | | |
| FSA051 | | | 15 *business days* | | | |
| FSA052 | | 22.00 hours (London time) on the second *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA053 | | | | 15 *business days* | | |
| FSA054 | | | | 15 *business days* | | |
| FSA055 | | | | | | 15 *business days* |
| … | | | | | | |
| Note 2 | … | | | | | |
| Note 3 | It is one *Month* if the report relates to a *non-UK DLG by modification.* | | | | | |

Regulated Activity Group 4

16.12.14 R (1) *SUP* 16.12.15R to *SUP* 16.12.17R do not apply to:

(a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));

…

16.12.15 R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

| Description of *data item* | *Firms* prudential category and applicable data items (note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *BIPRU firms* | | | *Firms* other than *BIPRU firms* | | | | |
| | 730K | 125K and *UCITS investment firms* | 50K | *IPRU(INV)* Chapter 3 | *IPRU(INV)* Chapter 5 | *IPRU(INV)* Chapter 9 | *IPRU(INV)* Chapter 13 | *UPRU* |
| … | | | | | | | | |
| Securitisation | … | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Daily Flows | FSA047 (Notes 23, 26 and 28) | | | | | |
| Enhanced Mismatch Report | FSA048 (Notes 23, 26 and 28) | | | | | |
| Liquidity Buffer Qualifying Securities | FSA050 (Notes 24, 27 and 28) | | | | | |
| Funding Concentration | FSA051 (Notes 24, 27 and 28) | | | | | |
| Pricing data | FSA052 (Notes 24, 27 and 28) | | | | | |
| Retail and corporate funding | FSA053 (Notes 24, 27 and 28) | | | | | |
| Currency Analysis | FSA054 (Notes 24, 27 and 28) | | | | | |
| Systems and Controls Questionnaire | FSA055 (Note 25) | | | | | |
| | … | | | | | |
| Note 22 | … | | | | | |
| Note 23 | A *firm* must complete this item separately on each of the following bases (if applicable).<br><br>(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.<br><br>(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. | | | | | |

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| | (4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 24 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 25 | If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone. |
| Note 26 | (1) This item must be reported in the reporting currency.<br><br>(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.<br><br>(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:<br><br>(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or<br><br>(b) the only *material currency* is the reporting currency;<br><br>(3) does not apply.<br><br>(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.<br><br>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.<br><br>(b) Take the three largest figures from the resulting list of amounts.<br><br>(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question. |

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| | (6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona). |
| Note 27 | Note 26 applies, except that paragraph (3) does not apply, meaning that *material currencies* must not be recorded separately. |
| Note 28 | Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary. |

16.12.15A G The columns in the table in *SUP* 16.12.15R that deal with *BIPRU 50K firms* and *BIPRU 125K firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*. In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.

16.12.16 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.15R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| *Data item* | *BIPRU 730K firm* | *BIPRU 125K firm* and *UCITS investment firm* | *BIPRU 50K firm* | *UK consolidation group* or *defined liquidity group* | *Firm* other than *BIPRU firms* |
|---|---|---|---|---|---|
| … | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| FSA046 | … | | | | |
| FSA047 | Daily, weekly, monthly or quarterly (Notes 5, 6 and 8) | | | Daily, weekly, monthly or quarterly (Notes 5, 7 and 8) | |
| FSA048 | Daily, weekly, monthly or quarterly (Notes 5, 6 and 8) | | | Daily, weekly, monthly or quarterly (Notes 5, 7 and 8) | |
| FSA050 | Monthly (Note 5) | | | Monthly (Note 5) | |
| FSA051 | Monthly (Note 5) | | | Monthly (Note 5) | |
| FSA052 | Weekly or monthly (Notes 5 and 9) | | | Weekly or monthly (Notes 5 and 10) | |
| FSA053 | Quarterly (Note 5) | | | Quarterly (Note 5) | |
| FSA054 | Quarterly (Note 5) | | | Quarterly (Note 5) | |
| FSA055 | Annually (Note 5) | | | Annually (Note 5) | |
| … | | | | | |
| Note 4 | … | | | | |
| Note 5 | Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:<br><br>(1) A week means the period beginning on Saturday and ending on Friday.<br><br>(2) A month begins on the first day of the calendar month and ends on the last day of that month.<br><br>(3) Quarters end on 31 March, 30 June, 30 September and 31 December. | | | | |

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|---|---|
| | (4) Daily means each *business day*.<br><br>All periods are calculated by reference to London time.<br><br>Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise. |
| Note 6 | If the report is on a solo basis the reporting frequency is as follows:<br><br>(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:<br><br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br><br>(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:<br><br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br><br>(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*. |
| Note 7 | (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met. |

| | |
|---|---|
| | (3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly. |
| Note 8 | (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected. |
| Note 9 | If the report is on a solo basis the reporting frequency is as follows:<br><br>(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(2) monthly if the *firm* is a *low frequency liquidity reporting firm*. |
| Note 10 | If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(1) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(2) monthly if the *group liquidity low frequency reporting conditions* are met. |

16.12.17 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.16R, unless indicated otherwise.

| Data item | Daily | Weekly | Monthly submission | Quarterly submission | Half yearly submission | Annual submission |
|---|---|---|---|---|---|---|
| … | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA046 | … | | | | | |
| FSA047 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 4) | | |
| FSA048 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 4) | | |
| FSA050 | | | 15 *business days* | | | |
| FSA051 | | | 15 *business days* | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA052 | | 22.00 hours (London time) on the second *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | | | |
| FSA053 | | | | 15 *business days* | | |
| FSA054 | | | | 15 *business days* | | |
| FSA055 | | | | | | 15 *business days* |
| … | | | | | | |
| Note 3 | … | | | | | |
| Note 4 | It is one *Month* if the report relates to a *non-UK DLG by modification.* | | | | | |

…

Regulated Activity Group 7

16.12.22 R (1) *SUP* 16.12.22AR to *SUP* 16.12.24R do not apply to:

(a) a *lead regulated firm* (except in relation to *data items* 47 to

55 (inclusive));

…

16.12.22A R The applicable *data items* referred to in SU 16.12.4R are set out according to type of *firm* in the table below:

| Description of *Data item* | *Firm* prudential category and applicable *data item* (note 1) | | | | | |
|---|---|---|---|---|---|---|
| | *BIPRU 730K firm* | *BIPRU 125K firm* and *UCITS investment firm* | *BIPRU 50K firm* | *Exempt CAD firms* subject to *IPRU(INV)* Chapter 13 | *Firms* (other than *exempt CAD firms*) subject to *IPRU(INV)* Chapter 13 | *Firms* that are also in one or more of *RAGS* 1 to 6 and not subject to *IPRU (INV)* Chapter 13 |
| … | | | | | | |
| Securitisation | … | | | | | |
| Daily Flows | FSA047 (Notes 16, 19 and 21) | | | | | |
| Enhanced Mismatch Report | FSA048 (Notes 16, 19 and 21) | | | | | |
| Liquidity Buffer Qualifying Securities | FSA050 (Notes 17, 20 and 21) | | | | | |
| Funding Concentration | FSA051 (Notes 17, 20 and 21) | | | | | |
| Pricing data | FSA052 (Notes 17, 20 and 21) | | | | | |
| Retail and corporate funding | FSA053 (Notes 17, 20 and 21) | | | | | |

| | | | | |
|---|---|---|---|---|
| Currency Analysis | FSA054 (Notes 17, 20 and 21) | | | |
| Systems and Controls Questionnaire | FSA055 (Note 18) | | | |
| | … | | | |
| Note 15 | … | | | |
| Note 16 | A *firm* must complete this item separately on each of the following bases (if applicable).<br><br>(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.<br><br>(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.<br><br>(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group. | | | |
| Note 17 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. | | | |
| Note 18 | If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone. | | | |
| Note 19 | (1) This item must be reported in the reporting currency. | | | |

| | |
|---|---|
| | (2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.<br><br>(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:<br><br>(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or<br><br>(b) the only *material currency* is the reporting currency;<br><br>(3) does not apply.<br><br>(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.<br><br>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.<br><br>(b) Take the three largest figures from the resulting list of amounts.<br><br>(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.<br><br>(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona). |
| Note 20 | Note 19 applies, except that paragraph (3) does not apply, meaning that *material currencies* must not be recorded separately. |

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|---|---|
| Note 21 | Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary. |

16.12.22B G The columns in the table in *SUP* 16.12.22AR that deal with *BIPRU 50K firms* and *BIPRU 125K firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*. In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.

16.12.23 R The applicable reporting frequencies for data items referred to in *SUP* 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| Data item | Frequency | | | | |
|---|---|---|---|---|---|
| | Unconsolidated *BIPRU investment firm* | Solo consolidated *BIPRU investment firm* | *UK consolidation group* or *defined liquidity group* | Annual regulated business revenue up to and including £5 million | Annual regulated business revenue over £5 million |
| … | | | | | |
| FSA046 | … | | | | |

| | | | | | |
|---|---|---|---|---|---|
| FSA047 | Daily, weekly, monthly or quarterly (Notes 4, 5 and 7) | Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10) | Daily, weekly, monthly or quarterly (Notes 4, 6 and 7) | | |
| FSA048 | Daily, weekly, monthly or quarterly (Notes 4, 5 and 7) | Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10) | Daily, weekly, monthly or quarterly (Notes 4, 6 and 7) | | |
| FSA050 | Monthly (Note 4) | Monthly (Notes 4 and 10) | Monthly (Note 4) | | |
| FSA051 | Monthly (Note 4) | Monthly (Notes 4 and 10) | Monthly (Note 4) | | |
| FSA052 | Weekly or monthly (Notes 4 and 8) | Weekly or monthly (Notes 4, 8 and 10) | Weekly or monthly (Notes 4 and 9) | | |
| FSA053 | Quarterly (Note 4) | Quarterly (Notes 4 and 10) | Quarterly (Note 4) | | |
| FSA054 | Quarterly (Note 4) | Quarterly (Notes 4 and 10) | Quarterly (Note 4) | | |
| FSA055 | Annually (Note 4) | Annually (Notes 4 and 10) | Annually (Note 4) | | |
| … | | | | | |
| Note 3 | … | | | | |
| Note 4 | Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular: | | | | |

| | |
|---|---|
| | (1) A week means the period beginning on Saturday and ending on Friday.<br><br>(2) A month begins on the first day of the calendar month and ends on the last day of that month.<br><br>(3) Quarters end on 31 March, 30 June, 30 September and 31 December.<br><br>(4) Daily means each *business day*.<br><br>All periods are calculated by reference to London time.<br><br>Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise. |
| Note 5 | If the report is on a solo basis the reporting frequency is as follows:<br><br>(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:<br><br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br><br>(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:<br><br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br><br>(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*. |
| Note 6 | (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met; |

| | |
|---|---|
| | (b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br><br>(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly. |
| Note 7 | (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br><br>(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected. |
| Note 8 | If the report is on a solo basis the reporting frequency is as follows:<br><br>(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br><br>(2) monthly if the *firm* is a *low frequency liquidity reporting firm*. |
| Note 9 | If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br><br>(1) weekly if the *group liquidity standard frequency reporting conditions* are met;<br><br>(2) monthly if the *group liquidity low frequency reporting conditions* are met. |

| | |
|---|---|
| Note 10 | As specified in *SUP* 16.12.22AR, solo consolidation has no application to liquidity reporting. Therefore it does not make any difference to the reporting of this item whether or not the *firm* is solo consolidated. |

16.12.24 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.23R, unless indicated otherwise.

| Data item | Daily | Weekly | Monthly submission | Quarterly submission | Half yearly submission | Annual submission |
|---|---|---|---|---|---|---|
| … | | | | | | |
| FSA046 | … | | | | | |
| FSA047 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA048 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |
| FSA050 | | | 15 *business days* | | | |
| FSA051 | | | 15 *business days* | | | |
| FSA052 | | 22.00 hours (London time) on the second *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA053 | | | | 15 *business days* | | |
| FSA054 | | | | 15 *business days* | | |
| FSA055 | | | | | | 15 *business days* |
| … | | | | | | |
| Note 2 | … | | | | | |
| Note 3 | It is one *Month* if the report relates to a *non-UK DLG by modification.* | | | | | |

Regulated Activity Group 8

16.12.25 R (1) *SUP* 16.12.25AR does not apply to:

(a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));

…

16.12.25A R The applicable *data items* referred to in SUP 16.12.4R are set out according to type of *firm* in the table below:

| Description of data item | *Firms* prudential category and applicable data items (note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *BIPRU firms* | | | *Firms* other than *BIPRU firms* | | | | |
| | 730K | 125K and *UCITS investment firms* | 50K | *IPRU(INV)* Chapter 3 | *IPRU(INV)* Chapter 5 | *IPRU(INV)* Chapter 9 | *IPRU(INV)* Chapter 13 | *UPRU* |
| … | | | | | | | | |
| Securitisation | … | | | | | | | |
| Daily Flows | FSA047 (Notes 21, 24 and 26) | | | | | | | |
| Enhanced Mismatch Report | FSA048 (Notes 21, 24 and 26) | | | | | | | |
| Liquidity Buffer Qualifying Securities | FSA050 (Notes 22, 25 and 26) | | | | | | | |
| Funding Concentration | FSA051 (Notes 22, 25 and 26) | | | | | | | |
| Pricing data | FSA052 (Notes 22, 25 and 26) | | | | | | | |
| Retail and corporate funding | FSA053 (Notes 22, 25 and 26) | | | | | | | |
| Currency Analysis | FSA054 (Notes 22, 25 and 26) | | | | | | | |
| Systems and Controls Questionnaire | FSA055 (Note 23) | | | | | | | |
| | … | | | | | | | |

| | |
|---|---|
| Note 20 | … |
| Note 21 | A *firm* must complete this item separately on each of the following bases (if applicable).<br><br>(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.<br><br>(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.<br><br>(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 22 | A *firm* must complete this item separately on each of the following bases that are applicable.<br><br>(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.<br><br>(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. |
| Note 23 | If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone. |
| Note 24 | (1) This item must be reported in the reporting currency.<br><br>(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.<br><br>(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:<br><br>(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or<br><br>(b) the only *material currency* is the reporting currency;<br><br>(3) does not apply. |

| | |
|---|---|
| | (4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.<br>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.<br>(b) Take the three largest figures from the resulting list of amounts.<br>(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.<br>(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona). |
| Note 25 | Note 24 applies, except that paragraph (3) does not apply, meaning that *material currencies* must not be recorded separately. |
| Note 26 | Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary. |

16.12.25B G The columns in the table in *SUP* 16.12.25AR that deal with *BIPRU 50K firms* and *BIPRU 125K firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*. In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.

16.12.26 R The applicable reporting frequencies for data items referred to in *SUP* 16.12.25AR are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| *Data item* | *BIPRU 730K firm* | *BIPRU 125K firm* | *BIPRU 50K firm* | *UK consolidation group* <u>or</u> <u>*defined liquidity group*</u> | *Firms* other than *BIPRU firms* |
|---|---|---|---|---|---|
| … | | | | | |
| FSA046 | … | | | | |
| <u>FSA047</u> | <u>Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)</u> | | | <u>Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)</u> | |
| <u>FSA048</u> | <u>Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)</u> | | | <u>Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)</u> | |
| <u>FSA050</u> | <u>Monthly (Note 5)</u> | | | <u>Monthly (Note 5)</u> | |
| <u>FSA051</u> | <u>Monthly (Note 5)</u> | | | <u>Monthly (Note 5)</u> | |
| <u>FSA052</u> | <u>Weekly or monthly (Notes 5 and 9)</u> | | | <u>Weekly or monthly (Notes 5 and 10)</u> | |
| <u>FSA053</u> | <u>Quarterly (Note 5)</u> | | | <u>Quarterly (Note 5)</u> | |
| <u>FSA054</u> | <u>Quarterly (Note 5)</u> | | | <u>Quarterly (Note 5)</u> | |

| | | | |
|---|---|---|---|
| FSA055 | Annually (Note 5) | Annually (Note 5) | |
| … | | | |
| Note 4 | … | | |
| Note 5 | Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:<br>(1) A week means the period beginning on Saturday and ending on Friday.<br>(2) A month begins on the first day of the calendar month and ends on the last day of that month.<br>(3) Quarters end on 31 March, 30 June, 30 September and 31 December.<br>(4) Daily means each *business day*.<br>All periods are calculated by reference to London time.<br>Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise. | | |
| Note 6 | If the report is on a solo basis the reporting frequency is as follows:<br>(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;<br>(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:<br>(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(b) monthly if the *firm* is a *low frequency liquidity reporting firm*; | | |

| | |
|---|---|
| | (3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*. |
| Note 7 | (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:<br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br>(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br>(a) weekly if the *group liquidity standard frequency reporting conditions* are met;<br>(b) monthly if the *group liquidity low frequency reporting conditions* are met.<br>(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly. |
| Note 8 | (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br>(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.<br>(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected. |
| Note 9 | If the report is on a solo basis the reporting frequency is as follows:<br>(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and<br>(2) monthly if the *firm* is a *low frequency liquidity reporting firm*. |
| Note 10 | If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:<br>(1) weekly if the *group liquidity standard frequency reporting conditions* are met; |

| | | |
|---|---|---|
| | (2) | monthly if the *group liquidity low frequency reporting conditions* are met. |

16.12.27 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.26R, unless indicated otherwise.

| *Data item* | Daily | Weekly | Monthly submission | Quarterly submission | Half yearly submission | Annual submission |
|---|---|---|---|---|---|---|
| … | | | | | | |
| FSA046 | … | | | | | |
| FSA047 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA048 | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 22.00 hours (London time) on the *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | 15 *business days* or one *Month* (Note 3) | | |
| FSA050 | | | 15 *business days* | | | |
| FSA051 | | | 15 *business days* | | | |
| FSA052 | | 22.00 hours (London time) on the second *business day* immediately following the last day of the reporting period for the item in question | 15 *business days* | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FSA053 | | | | 15 *business days* | | |
| FSA054 | | | | 15 *business days* | | |
| FSA055 | | | | | | 15 *business days* |
| … | | | | | | |
| Note 2 | … | | | | | |
| Note 3 | It is one *Month* if the report relates to a *non-UK DLG by modification.* | | | | | |

…

**16 Annex 24R Data items for SUP 16.7 and SUP 16.12**

…

Data item FSA010 is deleted from SUP 16 Annex 24R (Data items for SUP 16.7 and SUP 16.12) in its entirety, except that the heading for that item is amended as follows.

FSA010 Mismatch liquidity

[Deleted]

…

Data items FSA012 and FSA013 are deleted from SUP 16 Annex 24R (Data items for SUP 16.7 and SUP 16.12) in their entirety, except that the headings for those items are amended as follows.

FSA012 Non-deposit-taking EEA bank liquidity

[deleted]

FSA013 Stock liquidity

[deleted]

…

Insert the following data items FSA047 to FSA055 into SUP 16 Annex 24R (Data items for SUP 16.7 and SUP 16.12) in the appropriate numerical order. The text is all new and is not underlined.

**FSA047**
**Daily Flows**

**Part 1 - Memo Items**

| | | B | C | … | *n* |
|---|---|---|---|---|---|
| | | Date + 1 | Date + 2 | … | *Date + n* |
| 1 | Non-dated capital resources | | | | |
| 2 | Bank of England liquidity facilities | | | | |
| 3 | Other central bank liquidity facilities | | | | |
| 4 | Prior period's peak intra-day collateral used for UK settlement and clearing systems | | | | |
| 5 | Prior period's peak intra-day collateral used for settlement and clearing systems outside the UK | | | | |

**Part 2 - Security, transferable whole-loan and commodity flows**

| | | A | B | … | *n* |
|---|---|---|---|---|---|
| | | Date + 1 | Date + 2 | … | *Date + n* |
| 6 | Liquid asset buffer-eligible securities | | | … | |
| 7 | Other high quality central bank, supranational and central government debt | | | … | |
| 8 | US GSE/GSA securities | | | … | |
| 9 | Own-name securities and transferable whole-loans | | | … | |
| 10 | High quality asset-backed securities | | | … | |
| 11 | High quality covered bonds | | | | |
| 12 | Securities issued by group entities | | | … | |
| 13 | High quality corporate bonds (UK credit institutions) | | | … | |
| 14 | High quality corporate bonds (non-UK credit institutions) | | | … | |
| 15 | High quality corporate bonds (excluding credit institutions) | | | … | |
| 16 | Equities included in major indices | | | … | |
| 17 | Other securities and commodities | | | … | |

**Part 3 - Wholesale asset cash flows**

18 Designated money market funds
19 Liquid asset buffer-eligible central bank reserves and deposits

| | | | | | |
|---|---|---|---|---|---|
| 20 | Lending to group entities | | | … | |
| 21 | Lending to UK credit institutions | | | … | |
| 22 | Lending to non-UK credit institutions | | | … | |
| 23 | Own account security cash flows | | | … | |
| 24 | Notional flows of own-name securities and transferable whole-loans | | | … | |
| 25 | Reverse repo (items reported in line 6) | | | … | |
| 26 | Reverse repo (items reported in lines 7 and 8) | | | … | |
| 27 | Reverse repo (items reported in lines 10 and 11) | | | … | |
| 28 | Reverse repo (items reported in lines 13, 14 and 15) | | | … | |
| 29 | Reverse repo (items reported in line 16) | | | … | |
| 30 | Reverse repo (items reported in lines 9, 12 and 17) | | | … | |

**Part 4 - Other asset cash flows**

31 Non-retail lending exposures
32 Retail lending exposures
33 SSPE asset cash flows

**Part 5 - Repo cash flows**

| | | | | | |
|---|---|---|---|---|---|
| 34 | Repo (items reported in line 6) | | | … | |
| 35 | Repo (items reported in lines 7 and 8) | | | … | |
| 36 | Repo (items reported in lines 10 and 11) | | | … | |
| 37 | Repo (items reported in lines 13, 14 and 15) | | | … | |
| 38 | Repo (items reported in line 16) | | | … | |
| 39 | Repo (items reported in lines 9, 12 and 17) | | | … | |

**Part 6 - Wholesale liability cash flows**

| | | | | | |
|---|---|---|---|---|---|
| 40 | Primary issuances - senior securities | | | … | |
| 41 | Primary issuances - dated subordinated securities | | | … | |
| 42 | Primary issuances - structured notes | | | … | |
| 43 | Covered bonds | | | … | |
| 44 | Group entities | | | … | |
| 45 | UK credit institutions | | | … | |
| 46 | Non-UK credit institutions | | | … | |
| 47 | Governments, central banks and supranationals | | | … | |
| 48 | Non-credit institution financials | | | … | |
| 49 | Non-financial large enterprises - Type A | | | … | |
| 50 | Conditional liabilities pre-trigger contractual profile | | | … | |
| 51 | SSPE liability cash flows | | | … | |

**Part 7 - Other liability cash flows**

52 Non-financial large enterprises - Type B
53 SME deposits
54 Retail deposits - Type A
55 Retail deposits - Type B
56 Client / brokerage free cash

**Part 8 - Off balance sheet flows and balances**

| | | | | | |
|---|---|---|---|---|---|
| 57 | Principal FX cash flows (including currency swaps) | | | … | |

**FSA048**
**Enhanced Mismatch Report**
**Part 1 - Memo items**

| | | A | B OMO | C Collateral upgrade | D Others |
|---|---|---|---|---|---|
| 1 | Non-dated capital resources | | | | |
| 2 | Bank of England liquidity facilities | | | | |
| 3 | Other central bank liquidity facilities | | | | |
| 4 | Prior period's peak intra-day collateral used for UK settlement and clearing systems | | | | |
| 5 | Prior period's peak intra-day collateral used for settlement and clearing systems outside the UK | | | | |

**Part 2 - Security, transferable whole-loan and commodity flows**

| | | A Unencumbered position | B Open maturity | C <= 2 weeks | D 2 weeks <=1 month | E > 1 month <= 3 months | F > 3 months <= 6 months | G > 6 months <= 1 year | H > 1 year <= 2 years | I > 2 years <= 5 years | J > 5 years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 | Liquid asset buffer-eligible securities | | | | | | | | | | |
| 7 | Other high quality central bank, supranational and central government debt | | | | | | | | | | |
| 8 | US GSE/GSA securities | | | | | | | | | | |
| 9 | Own-name securities and transferable whole-loans | | | | | | | | | | |
| 10 | High quality asset-backed securities | | | | | | | | | | |
| 11 | High quality covered bonds | | | | | | | | | | |
| 12 | Securities issued by group entities | | | | | | | | | | |
| 13 | High quality corporate bonds (UK credit institutions) | | | | | | | | | | |
| 14 | High quality corporate bonds (non-UK credit institutions) | | | | | | | | | | |
| 15 | High quality corporate bonds (excluding credit institutions) | | | | | | | | | | |
| 16 | Equities included in major indices | | | | | | | | | | |
| 17 | Other securities and commodities | | | | | | | | | | |

**Part 3 - Wholesale asset cash flows**

| | | Non defined maturity | Repo/Reverse with open maturity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 18 | Designated money market funds | | | | | | | | | | |
| 19 | Liquid asset buffer-eligible central bank reserves and deposits | | | | | | | | | | |
| 20 | Lending to group entities | | | | | | | | | | |
| 21 | Lending to UK credit institutions | | | | | | | | | | |
| 22 | Lending to non-UK credit institutions | | | | | | | | | | |
| 23 | Own account security cash flows | | | | | | | | | | |
| 24 | Notional flows of own-name securities and transferable whole-loans | | | | | | | | | | |
| 25 | Reverse repo (items reported in line 6) | | | | | | | | | | |
| 26 | Reverse repo (items reported in lines 7 and 8) | | | | | | | | | | |
| 27 | Reverse repo (items reported in lines 10 and 11) | | | | | | | | | | |
| 28 | Reverse repo (items reported in lines 13, 14 and 15) | | | | | | | | | | |
| 29 | Reverse repo (items reported in line 16) | | | | | | | | | | |
| 30 | Reverse repo (items reported in lines 9, 12 and 17) | | | | | | | | | | |

**Part 4 - Other asset cash flows**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 31 | Non-retail lending exposures | | | | | | | | | | |
| 32 | Retail lending exposures | | | | | | | | | | |
| 33 | SSPE asset cash flows | | | | | | | | | | |

**Part 5 - Repo cash flows**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 34 | Repo (items reported in line 6) | | | | | | | | | | |
| 35 | Repo (items reported in lines 7 and 8) | | | | | | | | | | |
| 36 | Repo (items reported in lines 10 and 11) | | | | | | | | | | |
| 37 | Repo (items reported in lines 13, 14 and 15) | | | | | | | | | | |
| 38 | Repo (items reported in line 16) | | | | | | | | | | |
| 39 | Repo (items reported in lines 9, 12 and 17) | | | | | | | | | | |

**Part 6 - Wholesale liability cash flows**

40 Primary issuances - senior securities
41 Primary issuances - dated subordinated securities
42 Primary issuances - structured notes
43 Covered bonds
44 Group entities
45 UK credit institutions
46 Non-UK credit institutions
47 Governments, central banks and supranationals
48 Non-credit institution financials
49 Non-financial large enterprises - Type A
50 Conditional liabilities pre-trigger contractual profile
51 SSPE liability cash flows

**Part 7 - Other liability cash flows**

52 Non-financial large enterprises - Type B
53 SME deposits
54 Retail deposits - Type A
55 Retail deposits - Type B
56 Client / brokerage free cash

**Part 8 - Off balance sheet flows and balances**

Undrawn balances

57 Principal FX cash flows (including currency swaps)
58 Committed facilities **received**
59 Secured facilities provided - liquidity buffer securities
60 Secured facilities provided - other securities
61 Unsecured facilities provided - credit institutions
62 Unsecured stand-by facilities provided - firm's SSPEs
63 Unsecured stand-by facilities provided - entities other than credit institutions and firm's SSPEs
64 Unsecured facilities provided by firm's SSPEs to third parties
65 Unsecured facilities provided - entities other than credit institutions
66 Overdraft and credit card facilities provided
67 Pipeline lending commitments
68 Contingent obligations to repurchase assets financed through third parties
69 Other commitments and contingent facilities provided

**Part 9 - Downgrade triggers**

| | | B | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 notch | 2 notches | 3 notches | 4 notches | 5 notches | 6 notches | 7 notches | 8 notches | 9 notches | 10 notches |
| 70 | Asset put-backs from third party vehicles | | | | | | | | | | |
| 71 | Conditional liabilities | | | | | | | | | | |
| 72 | Over the counter (OTC) derivative triggers | | | | | | | | | | |
| 73 | Other contingent liabilities | | | | | | | | | | |

**Part 10 - Derivatives margining and exposure**

| | | Cash nominal | Collateral market value | Initial margin | MTM exposure - margined | MTM exposure - non margined |
|---|---|---|---|---|---|---|
| 74 | OTC derivative margin given | | | | | |
| 75 | Exchange traded margin given | | | | | |
| 76 | OTC derivative margin received | | | | | |
| 77 | Exchange traded margin received | | | | | |

**Part 11 - Assets included in Part 2 that are held under re-hypothecation rights**

Customer balance

78 Liquid asset buffer-eligible securities
79 Other high quality central bank, supranational and central government debt
80 US GSE/GSA securities
81
82 High quality asset-backed securities
83 High quality covered bonds
84 Securities issued by group entities
85 High quality corporate bonds (UK credit institutions)
86 High quality corporate bonds (non-UK credit institutions)
87 High quality corporate bonds (excluding credit institutions)
88 Equities included in major indices
89 Other securities and commodities

**FSA049**
**Intentionally left blank**

**FSA050**
**Liquidity Buffer Qualifying Securities**

| | Issuer | A<br>Market value of identifiable securities or security baskets |
|---|---|---|
| 1 | Australia | |
| 2 | Austria | |
| 3 | Belgium | |
| 4 | Canada | |
| 5 | Denmark | |
| 6 | Finland | |
| 7 | France | |
| 8 | Germany | |
| 9 | Ireland | |
| 10 | Italy | |
| 11 | Japan | |
| 12 | Luxembourg | |
| 13 | Norway | |
| 14 | Netherlands | |
| 15 | Portugal | |
| 16 | Slovenia | |
| 17 | Spain | |
| 18 | Sweden | |
| 19 | Switzerland | |
| 20 | United Kingdom | |
| 21 | United States of America | |
| 22 | Other | |
| 23 | Supranational(s) | |
| 24 | General Collateral - Europe | |

**FSA051**
**Funding Concentration**

| | A | B | C |
|---|---|---|---|
| | Counterparty | Amount | Weighted average residual maturity |
| **Part 1 - Wholesale deposits** | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| . | | | |
| . | | | |
| . | | | |
| 28 | | | |
| 29 | | | |
| 30 | | | |
| **Part 2 -Repo Funding** | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| . | | | |
| . | | | |
| . | | | |
| 28 | | | |
| 29 | | | |
| 30 | | | |

**FSA052**
**Pricing Data**

**Wholesale Liabilities ( Raised during the week ending with the reporting date)**

| | | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ≥ 1 month ≤ 3 months | | > 3 months ≤ 6 months | | > 6 months ≤ 1 year | | > 1 year ≤ 2 years | | > 2 years | |
| | | Spread | Volume | Spread | Volume | Spread | Volume | Spread | Volume | Spread | Volume |
| | **GBP** | | | | | | | | | | |
| 1 | Cash deposits | | | | | | | | | | |
| 2 | Senior unsecured securities | | | | | | | | | | |
| 3 | Covered bonds | | | | | | | | | | |
| 4 | Asset backed securities including ABCP | | | | | | | | | | |
| | **US dollars** | | | | | | | | | | |
| 5 | Cash deposits | | | | | | | | | | |
| 6 | Senior unsecured securities | | | | | | | | | | |
| 7 | Covered bonds | | | | | | | | | | |
| 8 | Asset backed securities including ABCP | | | | | | | | | | |
| | **Euro** | | | | | | | | | | |
| 9 | Cash deposits | | | | | | | | | | |
| 10 | Senior unsecured securities | | | | | | | | | | |
| 11 | Covered bonds | | | | | | | | | | |
| 12 | Asset backed securities including ABCP | | | | | | | | | | |

**FSA053**
**Retail, SME and large enterprises Type B Funding**

**Part 1 - Retail deposits ( Type A and Type B )**

| | | A | B |
|---|---|---|---|
| | | Outstanding Balance | |
| | | Type A | Type B |
| 1 | Current and / or transactional accounts | | |
| 2 | Tax-advantaged savings accounts | | |
| 3 | On demand or instant access accounts | | |
| 4 | Fixed term accounts | | |
| 5 | Fixed notice accounts | | |

**Part 2 - SME and large enterprises Type B**

| | | A | B |
|---|---|---|---|
| | | Outstanding Balance | |
| | | Type A | Type B |
| 6 | Current and / or transactional accounts | | |
| 7 | Tax-advantaged savings accounts | | |
| 8 | On demand or instant access accounts | | |
| 9 | Fixed term accounts | | |
| 10 | Fixed notice accounts | | |

**Part 3 - Deposit insurance schemes such as FSCS**

| | | |
|---|---|---|
| 11 | Deposits covered by deposit insurance schemes such as FSCS | |
| 12 | Deposits **not** covered by deposit insurance schemes such as FSCS | |

**FSA054**
**Currency analysis**

| | | A<br>Assets<br>( %) | B<br>Liabilities<br>( %) |
|---|---|---|---|
| 1 | GBP | | |
| 2 | USD | | |
| 3 | EUR | | |
| 4 | JPY | | |
| 5 | CHF | | |
| 6 | CAD | | |
| 7 | SEK | | |
| 8 | NOK | | |
| 9 | DKK | | |
| 10 | AUD | | |
| 11 | HKD | | |
| 12 | ZAR | | |
| 13 | Other | | |

**FSA055**
**Systems and controls questionnaire**

| | | A |
|---|---|---|
| **Part 1 - Overall Framework** | | |
| 1 | Does your firm have a liquidity risk management framework in place? (If you answer no above, leave the remaining data elements blank) | |
| **Part 2 - Systems and controls** | | |
| 2 | Are processes, strategies and systems for liquidity risk assessment incorporated into the framework? | |
| 3 | Is the framework documented? | |
| 4 | Do you consider institution specific and market wide stresses and their impact upon your assets? | |
| 5 | Do you consider your ability to raise funds under stressed market circumstances as adequate? | |
| **Part 3 - Stress testing** | | |
| 6 | Does your firm undertake stress testing on your liquidity risk model? | |
| 7 | Is your approach to stress testing documented? | |
| 8 | How many times throughout the year do you conduct stress tests? | |
| **Part 4 - Contingency funding plans** | | |
| 9 | Do you have an appropriate contingency funding plan in place? | |
| 10 | How frequently is this plan updated? ( Monthly/ Quarterly/ Semi- annually/ Annually/ less than once a year ) | |
| 11 | How many times has this plan been updated in the past 12 months? | |
| **Part 5 - Senior management oversight** | | |
| 12 | Is the governing body / senior management actively involved in reviewing and updating the liquidity risk management approach? | |
| 13 | How frequently does the governing body / senior management formally review the liquidity risk management approach? ( Monthly/ Quarterly/ Semi-annually/ Annually/ less than once a year ) | |
| 14 | Is an appropriate process in place for capturing, managing and escalating liquidity risk issues? | |
| 15 | Does the governing body approve stress tests and contingency funding plans? | |
| **Part 6 - Provisions on measurement and management** | | |
| In your liquidity risk management do you consider: | | |
| 16 | Pricing liquidity risk? | |
| 17 | Intra-day liquidity risk management? | |
| 18 | Management of collateral positions? | |
| 19 | How liquidity is managed across legal entities, business lines and currencies? | |
| 20 | Funding diversification and market access? | |

## 16 Annex 25G Guidance notes for data items in SUP 16 Annex ~~24G~~ 24R

The guidance notes for data item FSA010 are deleted from SUP 16 Annex 25G (Guidance notes for data items in SUP 16 Annex 24R) in their entirety, except that the heading for that item is amended as follows.

FSA010 Mismatch liquidity

[Deleted]

…

The guidance notes for data items FSA 012 and FSA013 are deleted from SUP 16 Annex 25G (Guidance notes for data items in SUP 16 Annex 24R) in their entirety, except that the headings for those items are amended as follows.

FSA012 - Non-deposit taking EEA bank liquidity

[Deleted]

FSA013 - Stock liquidity

[Deleted]

…

Insert the following guidance notes into SUP 16 Annex 25G (Guidance notes for data items in SUP 16 Annex 24R) in the appropriate numerical order. The text is all new and is not underlined.

**In accordance with the *rules* in *SUP 16,* a *firm* may be required to report either on a solo (including branch) basis or on behalf of a *DLG*. In this guidance, therefore, the words "*firm*" and "its" are to be construed accordingly.**

## FSA047 Daily Flows

The purpose of this *data item* is to record details of an *ILAS BIPRU firm's* liquidity flows. See further the *rules* and *guidance* in *SUP* 16.12.4.

### Valuation

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on valuation set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, for example, an *incoming EEA firm,* should follow its applicable accounting standards.

### Currency

The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Amounts should be entered in multiples of 1,000 of the relevant currency unit.

### Completion in a material currency

Where a *firm* is completing this *data item* in a *material currency,* the *firm* should only report positions and flows denominated in the *material currency* in question. In the case of off balance sheet items reportable in Part 8 where contingent liabilities or commitments may be drawn in multiple currencies, a *firm* should report these in the base currency of that contingent liability or commitment. Any payments and receipts in the *material currency* resulting from foreign exchange and currency swap flows are reported on line 57. If this *data item* is not being reported in a *material currency*, line 57 is left blank.

### Data elements

These are referred to by row first and then by column. So, *data element* 2B will be the element entered in row 2 and column B.

Note this *data item* requires the completion of daily flows for only a subset of the rows in FSA 048 and a *firm* is only required to complete the *data elements* as outlined.

For the rows for which a *firm* is required to complete this *data item*, it should make entries in Column A for any daily flows of cash or securities on the day (not being a Saturday or Sunday) following the reporting date, such date being "Date +1", and each day after that (not being a Saturday or a Sunday) in Column B onwards. If there are multiple flows on a single day these should be reported in a single Column.

The final Column required in this form is for the day (not being a Saturday or a Sunday) immediately prior to the earliest date a *firm* would report entries in Column F of FSA 048. None of the information entered in rows in FSA047 will therefore overlap with any of the information entered in rows on FSA 048 and vice versa.

## Completion and submission to the FSA

A *firm* should complete this *data item* and report cash flows and security flows in the relevant time bands based on their residual contractual maturity. Asset flows should be entered according to their latest maturity. Liability cash flows should be entered according to their earliest possible date of outflow. Any flows or balances between entities included within the scope of the return should be eliminated in accordance with generally accepted accounting principles.

**A firm should refer to the relevant Guidance Notes for FSA048 to complete the relevant *data elements* of this *data item*.**

## Validation rules

No rule as cell can be zero, positive or negative.

## FSA048 Enhanced Mismatch Report

The purpose of this *data item* is to record details of an *ILAS BIPRU firm's* liquidity mismatch positions. See further the *rules* and *guidance* in *SUP* 16.12.4.

### Valuation

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on valuation set out in *GENPRU* 1.3. A *firm* not subject to GENPRU 1.3, for example, an *incoming EEA firm*, should follow its applicable accounting standards.

### Currency

The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Amounts should be entered in multiples of 1,000 of the relevant currency unit.

### Completion in a material currency

Where a *firm* is completing this *data item* in a *material currency,* the *firm* should only report positions and flows denominated in the *material currency* in question. In the case of off balance sheet items reportable in Part 8 where contingent liabilities or commitments may be drawn in multiple currencies, a *firm* should report these in the base currency of that contingent liability or commitment. Any payments and receipts in the *material currency* resulting from foreign exchange and currency swap flows are reported on line 57. If this *data item* is not being reported in a *material currency*, line 57 is left blank.

### Data elements

These are referred to by row first and then by column. So, *data element* 2B will be the element entered in row 2 and column B.

### Completion and submission to the FSA

A *firm* should complete this *data item* and report cash flows in the relevant time bands based on their residual contractual maturity. Asset flows should be entered according to their latest maturity. Liability cash flows should be entered according to their earliest possible date of outflow. Any flows or balances between entities included within the scope of the return should be eliminated in accordance with generally accepted accounting principles.

### General

The completion table at the end of this guidance note identifies the columns which should be populated in respect of each row of *data item* FSA048.

## Part 1 Memo items

### 1 Non-dated capital resources

A *firm* should report here the amount of its *capital resources* which do not have a contractual maturity date, including, but not limited to, a call date. If any instrument comprising a *firm's capital resources* includes a put option for the holder or a call option for the issuer with a pre-determined step and call structure they should be reported in line 41 with a maturity date assuming the option is exercised. Any instrument where the *firm* has a perpetual open call option to buy back the instrument, with no underlying step up or predetermined call structure should be reported as non-dated capital resources.

A *firm* may use the most recent figures from its management accounts for the amount of reserves included within non-dated capital resources and update this *data element* on a monthly basis.

### 2 Bank of England liquidity facilities

A *firm* should report in this row the total of any secured transactions with the Bank of England.

The Bank of England conducts regular Open Market Operations to provide to the banking system the amount of central bank money needed to enable reserve-scheme members, in aggregate, to achieve their reserves targets and the Operational Standing Lending Facility to give certain banks a means to manage unexpected 'frictional' payments shocks. In *data element* 2B, a *firm* should report the cash received, if any, pursuant to the usage of these or similar Bank of England facilities.

The Bank of England operates facilities to provide liquidity insurance to the banking system, whereby a *firm* can exchange its own collateral for government bonds. In *data element* 2C, a *firm* should report the market value of government bonds it receives pursuant to such Bank of England facilities, if any, in exchange for the *firm's* own collateral.

The Bank of England may also operate other facilities whereby a *firm* may repo securities, distinct from Open Market Operations, such as longer-term repo operations, or operations in exchange for wider collateral. In *data element* 2D, a *firm* should report the cash, if any, received pursuant to the usage of such facilities.

### 3 Other central bank liquidity facilities

A *firm* should report in this row the total of any secured transactions with central banks other than the Bank of England, mapping such transactions to the following categories:

In *data element* 3B, a *firm* should report outstanding borrowings from other central banks in routine open market operations secured against narrow collateral.

In *data element* 3C, a *firm* should report the market value of any government bonds or other collateral of a comparable quality that it receives in exchange for the *firm's* lower quality collateral.

In *data element* 3D, a *firm* should report the cash received from all other central bank facilities, including those that are for a longer-term or against wider collateral than routine open market operations.

### 4 Prior period's peak intra-day collateral used for UK settlement and clearing systems

*Firms* that are direct participants of clearing and settlement systems within the United Kingdom should report here the peak amount of cash and collateral that they used on an intra-day basis to meet the requirements of clearing and settlement systems in the *United Kingdom* since their previous reporting date for this *data item*.

A *firm* should note that the amount to be reported in this *data element* should be the minimum amount of collateral it would have needed to post in order to meet its actual payment and settlement obligations as mandated by the requirements of the system(s) in question. It is not, therefore, the amount of collateral that was in fact posted by the *firm* which could include significant over-collateralisation.

### 5 Prior period's peak intra-day collateral used for settlement and clearing systems outside the UK

*Firms* that are direct participants of clearing and settlement systems outside the United Kingdom should report here the peak amount of cash and collateral that they used on an intra-day basis to meet the requirements of clearing and settlement systems outside the *United Kingdom* since their previous reporting date for this *data item*.

A *firm* should note that the amount to be reported in this *data element* should be the minimum amount of collateral it would have needed to post in order to meet its actual payment and settlement obligations as mandated by the requirements of the system(s) in question. It is not, therefore, the amount of collateral that was in fact posted by the *firm* which could include significant over-collateralisation.

## Part 2 Security, transferrable whole-loan and commodity flows

In this part of the *data item* a *firm* should report the current unencumbered stock of securities and their flows based on contractual maturities in the following types of securities by asset class:

(1) securities and commodities held on the *firm's* own account;

(2) securities and commodities held as *clients'* or other customers' assets in relation to which the *firm* has re-hypothecation rights;

(3) securities and commodities held by the *firm* as collateral pursuant to a *margin agreement*; and,

(4) transferrable whole-loans held by the *firm* that meet the criteria set out below in relation to line 9

Contractual security flows will occur as a result of:

(1) the settlement or maturity of own account securities or certain loans;

(2) the settlement or maturity of a *repo*, reverse *repo*, securities loans or collateral swap; and

(3) collateralised lending and borrowing transactions;

A *firm* should report positions at their clean market value (i.e. excluding accrued interest) and assume the maturity date of any collateral is the latest contractual maturity date possible. For securities without contractual maturity dates, it should report a maturity flow in Column J ">5 years".

The inflow of securities or position balance should be positive while contractual outflow or maturity should be negative. For example, if a *firm* were to purchase a four month security with a market value excluding accrued interest of £100m that it held unencumbered as at the reporting date it would report +100,000 in Column A and -100,000 in column F of the appropriate row 6 to 17.

Own-account security flows (long positions):

Any own-account securities should be reported as a positive flow in Column A if unencumbered or on the settlement date of purchase as appropriate; and as a negative flow at maturity.

A corresponding cash outflow on settlement date and inflow on maturity date should be reported on line 23.

Own-account security flows (short positions):

Any short sale of a security should be treated as having a negative flow on the settlement date of the sale and a positive flow on the maturity date of the underlying security sold.

A corresponding cash inflow on settlement date and outflow on maturity date should be reported on line 23.

Repos, reverse repos, securities loans and collateral swaps:

Repos, reverse repos, securities loans and collateral swaps should be reported as inflows on the date securities are received and outflows on the date securities are delivered. A *firm* should report all such transactions involving own account, client and margin collateral.

Tri-party repo and tri-party reverse repo transactions should be treated in the same manner as all other *repo* and reverse *repo* transactions. For the purpose of this *data item*, any such trade where the cash provider can unilaterally change the collateral eligibility criteria should be treated as having an overnight maturity, irrespective of the stated contractual maturity of the transaction.

Where a *firm* enters into forward-starting reverse repo transactions against unspecified collateral that would be reportable in more than one row, it should in the case of reverse repos, assume that it will be delivered collateral, as qualifying, in the following order: lines

17; 9 and 12; 10; 13 to 15; 16; 11; 8; 7; and 6. On settlement it should allocate securities flows based on the collateral it receives.

For similar repo transactions it may assume it delivers any securities it holds unencumbered that are eligible.

In the case or reverse repos and repos corresponding cash outflows and inflows should be reported in lines 25 to 30 and lines 34 to 39 as appropriate.

Margin collateral:

A *firm* should report the net collateral received as margin in Column A if it is unencumbered, and not report a flow for its maturity. Any repos, reverse repos, securities loans or collateral swaps using margin collateral should be reported as outlined above.

Client collateral:

A *firm* should report any client collateral over which it has rehypothecation rights in Column A if it is unencumbered, and not report a flow for its maturity. Any repos, reverse repos, securities loans or collateral swaps using *client* collateral should be reported as outlined above.

--

In relation to rows 6 to 17, when determining the *applicable credit quality step* (if any), a *firm* should make such determination in accordance with the *rules* and *guidance* in *BIPRU* 3.6 regardless of whether *BIPRU* 3.6 would apply to determine risk weighting. For the avoidance of doubt, this includes covered bonds and own-name securities. The description of which securities or loans should be reported in each row is as follows:

**6 Liquid assets buffer-eligible securities**

A *firm* should report in this row the unencumbered balances and the contractual securities flows of any securities it holds that qualify for inclusion in its liquid assets buffer as defined in *BIPRU* 12.7.

**7 Other high quality central bank, supranational and central government debt**

A *firm* should report in this row the unencumbered balances and the contractual securities flows of any securities not reported in line 6 or 8 whose obligor is a central government, *multilateral development bank* or central bank whose credit rating maps to *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of *BIPRU* 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)).

For the avoidance of doubt, any securities that are issued by an agency explicitly guaranteed by the US government and which qualify for inclusion in line 8 should be reported in that line and not in line 7.

**8 US GSE/GSA securities**

A *firm* should report in this row the unencumbered balances and the contractual securities flows of any senior securities that it holds issued by, or guaranteed by one or more of, the United States Government Sponsored Enterprises (GSEs) or Government Sponsored Agencies (GSAs).

For the purposes of this row, GSAs and GSEs include only the Federal Home Loan Banks, Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Government National Mortgage Association (Ginnie Mae), Federal Farm Credit Banks and the Federal Agricultural Mortgage Corporation (Farmer Mac).

**9 Own-name securities and transferrable whole-loans**

A *firm* should report in this row (i) the unencumbered balances and contractual securities flows of any own-name covered bonds and asset-backed securities that it holds secured by the *firm's* assets where the credit rating of such *exposures* has a credit rating associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping (ii) the unencumbered balances and maturity flows of any whole-loans whose credit rating is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping where such *exposures* are held on the *firm*'s balance sheet for which there is no operational or contractual impediment to their being transferred to a third party.

**10 High quality asset-backed securities**

A *firm* should report in this row the unencumbered balances and contractual securities flows of any asset backed securities that it holds where the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping, provided that such *exposure* is the most senior tranche of the issuing *securitisation special purpose entity*. All asset backed securities that are not included in this row should be reported in row 17.

For avoidance of doubt, a *firm* should exclude any unencumbered balances and securities flows of covered bonds in this row.

**11 High quality covered bonds**

A *firm* should report in this row the unencumbered balances and contractual securities flows of all covered bonds, where the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping.

For the avoidance of doubt, own-name covered bonds, and covered bonds issued by *group* entities should not be reported in this row, but in rows 9 and 12 respectively.

**12 Securities issued by group entities**

A *firm* should report in this row the unencumbered balances and security flows attributable to securities where the obligor of those securities forms part of the *firm's group* where the issuing vehicle is excluded from the scope of the report. If the issuing vehicle is included in the scope of the report, the securities should be reported as own-name securities and reported on line 9, if the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping, or omitted from this report if they do not.

For avoidance of doubt, if a *firm* holds bonds issued by its *group*, the security flows attributable to them should be included only in this row, even if such security would otherwise qualify for inclusion in another row in Part 2.

**13 High quality corporate bonds (UK credit institutions)**

A *firm* should report in this row the unencumbered balances and contractual securities flows of all senior corporate bonds that it holds whose obligor is a credit institution incorporated in the *United Kingdom,* if the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping.

For avoidance of doubt, a *firm* should not report in this row any balances or flows from securities whose obligor is a member of the *firm's group*.

**14 High quality corporate bonds (non-UK credit institutions)**

A *firm* should report in this row the unencumbered balances and contractual securities flows of all senior corporate bonds that it holds whose obligor is a credit institution not incorporated in the *United Kingdom,* if the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping.

For avoidance of doubt, a *firm* should not report in this row any balances or flows from securities whose obligor is a member of the *firm's group*.

**15 High quality corporate bonds (excluding credit institutions)**

A *firm* should report in this row the unencumbered balances and contractual securities flows of all senior corporate bonds that it holds whose obligor is not a credit institution, if the credit rating of such *exposures* is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised

Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping.

In addition a *firm* should include any securities whose obligor is a local government, state or municipality in this line, whose credit rating is associated with *credit quality step* 2 or above in the *credit quality assessment scale* published by the FSA for the purpose of BIPRU 3 (the Standardised Approach to Credit Risk: mapping of the ECAIs credit assessment to credit quality steps (Long term mapping)) or *credit quality step* 1 in the case of short-term mapping.

**16 Equities included in major indices**

A *firm* should report in this row the unencumbered balances and contractual securities flows of all equities that it holds to the extent they are constituents one or more of the indices listed in the table at *BIPRU* 7.3.39R.

For the purposes of computing maturity, a *firm* should treat equity securities as if they were instruments with a contractual maturity greater than five years.

**17 Other securities and commodities**

A *firm* should report in this row unencumbered balances and the contractual securities flows of all other securities, commodities and exchange-traded funds that it holds not reported on lines 6 to 16 of this *data item*.

For the purposes of computing maturity, a *firm* should treat equity securities or commodities as if they were instruments with a contractual maturity greater than five years.

**Part 3 Wholesale asset cash flows**

In this Part of the *data item*, a *firm* should report the principal cash flows associated with its wholesale assets. Transactions which do not have a specific contractual maturity date should be entered in column A for rows 18 to 22 and column B for rows 25 to 30.

**18 Designated money market funds**

A *simplified ILAS BIPRU firm* should report in this row the balance of any funds it holds in a *designated money market fund. Firms* that are not *simplified ILAS BIPRU firms*, should report the balance of any funds held in a *designated money market fund* in row 31 below.

**19 Liquid assets buffer-eligible central bank reserves and deposits**

A *firm* should report in this row any closing balances placed on deposit or as reserves with a central bank, where such reserves or deposits are eligible for inclusion in a *firm's* liquid assets buffer as defined in *BIPRU* 12.7. Deposit placed or reserves maintained with other central banks should be reported in row 22.

**20 Lending to group entities**

A *firm* should report here all lending, except reverse repo transactions reportable in rows 25 to 30, on both a term and open-maturity basis to entities in that *firm's group*.

**21 Lending to UK credit institutions**

A *firm* should report here lending on both a term and open-maturity basis to all *credit institutions* incorporated in the *United Kingdom*, except reverse repo transactions reportable in rows 25 to 30. A *firm* should include any cash balances placed on deposit with its agents in payment or settlements systems if appropriate.

A *firm* should report cash flows based on their latest contractual maturity date.

**22 Lending to non-UK credit institutions**

A *firm* should report here lending on both a term and open-maturity basis to all *credit institutions* incorporated outside the *United Kingdom*, except reverse repo transactions reportable in rows 25 to 30. A *firm* should include any cash balances placed on deposit with its agents in payment or settlements systems and central bank deposits not reported in line 19, if appropriate.

**23 Own account security cash flows**

A *firm* should report here the cash flows, based on the contractual principal inflows, resulting from the maturity, forward sale or purchase of own account securities reportable in rows 6 to 8 & 10 to 17.

Where a *firm* has written down the principal of a security it should report this written-down principal as the cash inflow.

A *firm* should report cash flows based on their latest contractual maturity date.

**24 Notional flows of own-name securities and transferrable whole-loans**

A *firm* should report here the contractual principal cash flows that would be receivable by a third-party owner of any own-name covered bonds and asset-backed securities and transferrable loans reported in line 9.

**25 Reverse Repo (items reported in line 6)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions is reported in line 6.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in row 6.

**26 Reverse Repo (items reported in lines 7 and 8)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions is reported in rows 7 and 8.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in rows 7 and 8.

**27 Reverse Repo (items reported in lines 10 and 11)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions reported in rows 10 and 11.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in rows 10 and 11.

**28 Reverse Repo (items reported in lines 13, 14 and 15)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions is reported in row 13 to 15.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in rows 13 to 15.

**29 Reverse Repo (items reported in line 16)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions is reported in row 16.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in row 16.

**30 Reverse Repo (items reported in lines 9, 12 and 17)**

A *firm* should report here all cash flows resulting from secured lending transactions where the flow of securities arising from the transactions is reported in rows 9, 12 and 17.

A *firm* should only report in this row any secured lending transactions where securities flows are reported in rows 9, 12 and 17.

**Part 4 Other asset cash flows**

In this Part, a *firm* should report lending not reportable in Part 3. In column A, a *firm* should report any open maturity balances, or balances for which it does not have at the time of the reporting date information as to the term.

A *firm* should only report contractual principal repayments and treat all loans using their latest contractual maturity.

A *firm* is not required to update the amounts in rows 31 to 33 more frequently than monthly.

**31 Non-retail lending exposures**

A *firm* should report here the principal cash flows resulting from lending *exposures* that are not *retail exposures* not reported elsewhere in Parts 3 or 4. These assets represent loans to all enterprises.

**32 Retail lending exposures**

A *firm* should report here the principal cash flows resulting from all lending *exposures* that are *retail exposures*, provided that they are not reportable in line 33.

**33 SSPE asset cash flows**

A *firm* should report in here the principal cash flows of the underlying assets transferred to any *securitisation special purpose entities* (SSPEs), that are consolidated in the *firm's* consolidated financial statements and whose liabilities are reported on line 51.

**Part 5 Repo cash flows**

This part of the *data item* relates to the gross cash flows of secured or collateralised borrowing transactions which encumber the *firm's* securities or transferrable whole-loans and/or those of its *clients* in relation to which the *firm* has re-hypothecation rights. This section is further sub-divided into rows 34 to 39 according to the security encumbered in these secured transactions.

**34 Repo (items reported in line 6)**

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in row 6.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in row 6.

**35 Repo (items reported in lines 7 and 8)**

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in rows 7 to 8.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in rows 7 to 8.

**36 Repo (items reported in lines 10 and 11)**

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in rows 10 and 11.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in rows 10 and 11.

**37 Repo (items reported in lines 13, 14 and 15)**

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in row 13 to 15.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in rows 13 to 15.

### 38 Repo (items reported in line 16)

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in row 16.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in row 16.

### 39 Repo (items reported in lines 9, 12 and 17)

A *firm* should report here all cash flows resulting from secured borrowing transactions where the flow of securities arising from the transactions is reported in rows 9, 12 and 17.

A *firm* should only report in this row any secured borrowing transactions where securities flows are reported in rows 9, 12 and 17.

## Part 6 Wholesale liability cash flows

In this Part of the *data item*, a *firm* should report cash flows arising from wholesale liabilities not reported in Part 5. A *firm's* wholesale liabilities are those liabilities not reported in Part 7.

Contractual cash flows related to any open-maturity, callable, puttable or extendable issuance should be analysed based on the earliest possible repayment date and reported in part 6 unless these instruments are perpetually callable (by the *firm*) and qualify as non-dated capital resources reported on line 1.

A *firm* should first assess whether a liability qualifies for reporting in row 44, then row 50, prior to assessing which other row a liability qualifies for.

Contractual cash flows from securities issued should be reported in one of lines 40 to 43 or 51. Contractual cash flows from deposits taken should be reported in one of lines 44 to 50.

### 40 Primary issuances – senior securities

A *firm* should report here the contractual cash flows of its vanilla senior unsecured debt securities, for the purposes of this row, vanilla means any debt security not reportable in row 41 to 43. A *firm* should include in this row any of its primary issuance that is government-guaranteed.

### 41 Primary issuances - dated subordinated securities

A *firm* should report here the contractual cash flows of its dated subordinated securities.

A *firm* should, however, exclude from this row any undated capital instrument that it issues. Issuance of this type should be reported in row 1 of this *data item*.

### 42 Primary issuance – structured notes

A *firm* should report here the contractual cash flows of its senior securities containing embedded *derivatives.*

### 43 Covered bonds

A *firm* should report here the contractual cash flows of its covered bonds excluding own-name covered bonds it holds for its own account and reports in line 9 of this *data item*.

### 44 Group entities

A *firm* should report here the contractual cash flows of its borrowing from other entities in its *group*, where such borrowings are not reported in lines 34 to 39.

To the extent the *rules* in *SUP 16.12* require a *firm* to report on a basis which includes other entities in its *group,* the *firm* should not report in this line borrowings from those *group* entities.

### 45 UK credit institutions

A *firm* should report here the contractual cash flows of its borrowing from other from *credit institutions* which are incorporated in the *United Kingdom*, where such borrowings are not reported in lines 34 to 44.

A *firm* should not include in this row unsecured cash deposits received from the Bank of England.

### 46 Non-UK credit institutions

A *firm* should report here the contractual cash flows of its borrowing from other from *credit institutions* which are not incorporated in the *United Kingdom*, where such borrowings are not reported in lines 34 to 44.

A *firm* should not include in this row unsecured cash deposits received from central banks other than the Bank of England.

### 47 Governments, central banks and supranationals

A *firm* should report here the contractual cash flows of its borrowing from central and local governments, local authorities, central banks and supra-nationals, where such borrowings are not reported in lines 34 to 44.

### 48 Non-credit institution financials

A *firm* should report here the contractual cash flows of its borrowing from financial entities which are not *credit institutions,* where such borrowings are not reported in lines 33 to 42.

This category would, for example, include unsecured borrowings from a *depositary* or an *investment manager*.

**49 Non-financial large enterprises – Type A**

A *firm* should report here the contractual cash flows of its borrowing from non-financial large enterprises, where such borrowings are not reported in lines 34 to 44, subject to the funds provider being Type A as assessed by the *firm* according to the guidance in *BIPRU* 12.5.

A non-financial large enterprise is, for the purpose of identifying depositors in rows 49 and 52 of this *data item*, any depositor-type not captured by rows 44 to 48 and 53 to 56.

**50 Conditional liabilities pre-trigger contractual profile**

A *firm* should report here the contractual cash flows of liabilities where early repayment can be triggered upon the occurrence of an event or events related to the financial health of the company, (for example, a downgrade of the *firm's* credit rating, or breach of a financial covenant). For avoidance of doubt, acceleration of payment obligations triggered by the *firm's* default does not, in and of itself, qualify a liability for inclusion in this line. A typical example of such liabilities is Guaranteed Investment Contracts (GICs).

Any liability with a trigger and which would otherwise be included in lines 40 to 49 should be included in this row and not any other row.

In addition to reporting in this line, a *firm* should further breakdown the liabilities where those triggers are dependent on its credit rating, in the appropriate *data element* on line 70.

**51 SSPE liability cash flows**

A *firm* should report here the contractual cash flows of liabilities issued by any *securitisation special purpose entities* (*SSPEs*) that are consolidated in the firm's consolidated financial statements. The maturity profile of the *firm's* assets contained in these SSPEs should be reported on row 33.

**Part 7 Other liability cash flows**

A *firm* should report in this section of the *data item*, cash flows related to other liabilities according to the following criteria.

**52 Non-financial large enterprises – Type B**

A *firm* should report here the contractual cash flows of its borrowing from non-financial enterprises, where such borrowings are not reported in lines 33 to 42, subject to the funds provider being Type B as assessed by the *firm* according to the guidance in *BIPRU* 12.5.

A non-financial enterprise is, for the purpose of identifying depositors in rows 49 and 52 of this *data item*, any depositor-type not captured by rows 44 to 48 and 53 to 56.

**53 SME deposits**

A *firm* should report in this row all its deposits and account balances where the account holder is a *small or medium enterprise* (*SME*).

A non-EEA *firm* may use its local definition of an SME.

### 54 Retail Deposits – Type A

A *firm* should report in this row, its retail deposits that are Type A, as assessed by the *firm* according to the guidance for *ILAS BIPRU firms* and for *simplified ILAS firms* in *BIPRU* 12.5.25G.

A retail deposit is any deposit in a retail banking account or product type predominantly used by an individual or individuals acting outside their trade, industry or profession, and includes, in each case, savings bonds.

A *firm* should report all deposits in column A, unless the deposit is for a fixed term. In considering whether a deposit is fixed term, a *firm* should assume the immediate exercise of any notice period or other right of the depositor to claim the repayment of funds at the earliest possible repayment date.

### 55 Retail Deposits – Type B

A *firm* should report in this row, its retail deposits that are Type B, as assessed by the *firm* according to the guidance for *ILAS BIPRU firms* and for *simplified ILAS firms* in *BIPRU* 12.5.

A retail deposit is any deposit in a retail banking account or product type predominantly used by an individual or individuals acting outside their trade, industry or profession, and includes, in each case, savings bonds.

A *firm* should report all deposits in column A, unless the deposit is for a fixed term. In considering whether a deposit is fixed term, a *firm* should assume the immediate exercise of any notice period or other right of the depositor to claim the repayment of funds at the earliest possible repayment date.

### 56 Client / brokerage free cash

A *firm* should report here all cash balances which it has received from its prime brokerage/prime services *clients* and which are not segregated from the *firm's* own assets. A *firm* should not include excess margin cash in this row.

Balances should be reported in Column A without regard to their contractual maturity.

## Part 8 - Off balance sheet flows and balances

A *firm* should report commitments given and received and contingent liabilities in rows 57 to 69.

A *firm* should separate its commitments and contingent liabilities according to:

(i) stand-by facilities, which would typically be used to backstop outstanding debt of the borrower; and,

(ii) other facilities which would typically be revolving loan facilities to corporate borrowers where utilisation rates will vary over time or letters of credit.

Unless either is reportable in rows 59 to 61, stand-by facilities provided should be reported in rows 62 or 63 and other facilities should be reported in row 64.

**57 Principal FX cash flows (including currency swaps)**

A *firm* should only make entries on this row where it is completing this *data item* on a non-consolidated *material currency* basis as defined in [SUP 16.], otherwise it should be left blank.

Where a *firm* is completing this *data item* on a *material currency* basis, it should report here all outright flows for its spot foreign exchange and foreign exchange forward transactions and all principal flows on any cross currency swaps, where those flows are payments or receipts of the *material currency* in which the *firm* is completing this *data item*.

For example, if a *firm* was completing this *data item* to show its contractual assets and liabilities denominated in *US dollars* and it had transacted a forward foreign exchange contract to purchase $75m against the sale of an equivalent amount of another currency four months after the reporting date, it would enter -75,000 in column F and make no other entries.

**58 Committed facilities received**

A *firm* should report the balance of any undrawn committed facilities received which the FSA has permitted it to rely on for the purposes of meeting its *individual liquidity guidance*, as outlined in *BIPRU* 12.9.

Facilities of this kind received by the *firm* should be reported as a positive balance in the column of maturity. Facilities maturing in less than three months should be reported in Column A.

**59 Secured facilities provided - liquidity buffer securities**

A *firm* should report here the undrawn balance of all committed facilities where the borrower is contractually required to deliver securities eligible for inclusion in the *firm's* liquid assets buffer as defined in *BIPRU* 12.7 and where the market value of those securities will exceed the amount of the loan drawn down.

Note a *firm* should only report committed facilities in this row if there is no impediment to using the securities deliverable under such borrowings for repo transactions.

**60 Secured facilities provided - other securities**

A *firm* should report here the undrawn balance of all committed facilities where the borrower is contractually required to deliver securities not eligible for inclusion in the *firm's* liquid assets buffer as defined in *BIPRU* 12.7.

Note a *firm* should only report committed facilities in this row if there is no impediment to using the securities deliverable under such borrowings for repo transactions.

**61 Unsecured facilities provided - credit institutions**

A *firm* should report here the balance of any undrawn committed financing facilities provided by the *firm* to *credit institutions* not reported on lines 59 and 60. Facilities of this kind provided to *credit institutions* should be reported as a negative balance.

**62 Unsecured stand-by facilities provided - firm's SSPEs**

A *firm* should report here undrawn balance of any committed stand-by facilities provided to the *firm's* SSPEs that are consolidated in its consolidated financial statements.

The assets and liabilities, if any, of these SSPEs will be reported on lines 33 and 51 respectively.

**63 Unsecured stand-by facilities provided – entities other than credit institutions and firm's SSPEs**

A *firm* should report here the undrawn balance of committed stand-by facilities to entities other than *credit institutions* and the *firm's SSPE's*. Facilities provided should be reported as a negative balance.

**64 Unsecured facilities provided by firm's SSPEs to third parties**

A *firm* should report here the undrawn balance of any committed facilities provided to third parties by *SSPEs* that are consolidated in its consolidated financial statements and whose assets and liabilities, if any, are reported on lines 33 and 51.

**65 Unsecured facilities provided – entities other than credit institutions**

A *firm* should report here the undrawn balance of other committed facilities provided to entities other than credit institutions.

Any facilities provided to *credit institutions* and/or secured against securities reportable in Part 2 of this *data item* should be reported on lines 59 to 61 as appropriate.

**66 Overdraft and credit card facilities provided**

A *firm* should report here the total balance of undrawn retail overdrafts and credit cards facilities provided to retail customers. Facilities provided should be reported as a negative balance.

**67 Pipeline Lending Commitments**

A *firm* should report here the total balance of any lending commitments to retail customers. A *firm* should only report contractual lending commitments which, if and when exercised, would be reportable in line 32.

### 68 Contingent obligations to repurchase assets financed through third parties

A *firm* should report here the balance of any of the *firm's* assets financed by third parties, where a *firm* has a contingent obligation to repurchase those assets triggered by deterioration in the *firm's* financial condition.

### 69 Other commitments and contingent facilities provided

A *firm* should report here all other undrawn commitments, guarantees and contingent liabilities not included elsewhere in Part 8.

## Part 9 Downgrade triggers

For the purpose of rows 70 to 73, a *firm* should analyse and report, in the way described, in each of those rows any contractual outflows that would result from a downgrade of the *firm*'s current long-term credit rating. A *firm* should consider downgrades of all its long-term counterparty, issuer and debt credit ratings.

A *firm* should assume that each *ECAI* that provides it with a long-term credit rating simultaneously downgrades that rating.

In addition a *firm* should consider the impact of a downgrade of its short-term credit rating. As *ECAIs* may not publish when a specific downgrade of a *firm's* long-term credit rating would result in a downgrade of a *firm's* short-term credit rating, a *firm* should assume its short-term credit rating would be downgraded at the highest long-term rating specified by each agency as being consistent with publically available information.

A *firm* should report such outflows on a non-cumulative basis in the appropriate column according to the severity of the downgrade that would cause such an outflow.

For the purpose of identifying which of columns B to K this Part of the *data item* a "notch" is the smallest discrete step by which a *firm's* long-term credit rating may be downgraded.

### 70 Asset put-backs from third parties

A *firm* should analyse and report here the outflows that may result from asset put-backs which would be triggered by a downgrade of its existing long and short-term credit rating according to the methodology outlined above.

The triggers for asset put-backs include but are not limited to:

(1) as past originator of assets the downgrade of the *firm's* credit rating now precludes the continued financing of the assets in the structured vehicle;
(2) as a swap provider against the assets placed in the vehicle the downgrade of the *firm's* credit rating now renders the *firm* ineligible to continue providing any *derivatives* (e.g. including but not limited to credit default swaps or total return swaps) to the structured vehicle. For the avoidance of doubt, if a *firm* was required to margin this exposure, it would be reported in line 70; and

(3) the rating of the assets placed is linked to the rating of the *firm*; following a downgrade of the *firm* these assets are ineligible for continued financing by the third party vehicle.

**71 Conditional Liabilities**

A *firm* should analyse and report here the cash flow impact of a downgrade of its existing credit rating according to the methodology outlined above, on its conditional liabilities reported in row 50.

**72 Over the counter (OTC) derivative triggers**

A *firm* should analyse and report here any outflows that would be triggered by a downgrade of its credit rating according to the methodology outlined above.

A *firm* should include in this row the impact of increased collateralisation requirements and any termination payments.

**73 Other contingent liabilities**

A *firm* should report in this row, any other contractual outflows that would occur from the downgrade of its credit rating according to the methodology outlined above.

**Part 10 Derivatives margining and exposure**

Figures reported in rows 74 to 77 relate to any variation and initial margin given or received in respect of *derivatives* transactions. A *firm* should report together figures for own account and client accounts.

For each row, a *firm* should report:

(1) In column B, the nominal amount of cash collateral given or received as initial plus variation margin;
(2) In column C, the market value of collateral securities given or received as initial plus variation margin;
(3) In column E, the initial margin paid or received;
(4) In column G, the mark-to-market exposure of underlying *derivatives* transactions that are currently subject to margining for all or part of the exposure; and
(5) In column H, the mark-to-market exposure of underlying *derivatives* transactions that are currently not subject to margining for any portion of the exposure.

Where a *firm* gives or receives initial margin on a net basis across *derivative* and non-*derivative* transactions, it should report the total amount in Column E without regard to the underlying transaction.

Margin and mark-to-market receivables should be reported with a positive sign while margin received and mark-to-market payables should be reported with a negative sign.

A *firm* should report the gross margin balances received or given by counterparty, e.g. if a *firm* transacts OTC derivatives with two counterparties, from one of which it has received cash collateral as margin of £25m and to the other of which it has paid cash collateral of margin to of £20m, it should report +20,000 in *data element* 72B and -25,000 in *data element* 74B, it should not report a net figure of -5,000 in 74B

**74 OTC derivative margin given**

A *firm* should report here cash and collateral margin given and mark-to-market on margined *OTC derivatives*.

**75 Exchange traded margin given**

A *firm* should report here cash and collateral margin given on exchange traded *derivatives*.

**76 OTC derivative margin received**

A *firm* should report here cash and collateral margin received and mark-to-market on margined *OTC derivatives*.

**77 Exchange traded margin received**

A *firm* should report here cash and collateral margin received on exchange traded *derivatives*.

**Part 11 Assets included in Part 2 held under re-hypothecation rights**

Rows 78 to 89 relate to securities reported in Part 2 of this *data item*, held as *clients'* assets or net margin collateral received in relation to which the *firm* has re-hypothecation rights. Row 81 is intentionally left blank.

The definitions of securities reported in rows 78 to 89 are the identical to those in rows 6 to 17 inclusive.

Amounts in lines 78 to 89 should be reported as positive numbers.

**Validation rules**

| Validation number | Data element | | |
|---|---|---|---|
| 1 | 2B | >= | 0 |
| 2 | 2C | >= | 0 |
| 3 | 2D | >= | 0 |
| 4 | 3B | >= | 0 |
| 5 | 3C | >= | 0 |
| 6 | 3D | >= | 0 |

| | | | |
|---|---|---|---|
| 7 | 4A | >= | 0 |
| 8 | 5A | >= | 0 |
| 9 | 6A | >= | 0 |
| 10 | 7A | >= | 0 |
| 11 | 8A | >= | 0 |
| 12 | 9A | >= | 0 |
| 13 | 10A | >= | 0 |
| 14 | 11A | >= | 0 |
| 15 | 12A | >= | 0 |
| 16 | 13A | >= | 0 |
| 17 | 14A | >= | 0 |
| 18 | 15A | >= | 0 |
| 19 | 16A | >= | 0 |
| 20 | 17A | >= | 0 |
| 21 | 18A | >= | 0 |
| 22 | 19A | >= | 0 |
| 23 | 31A+31C+31D+31E+31F+31G+31H+31I+31J | >= | 0 |
| 24 | 32A+32C+32D+32E+32F+32G+32H+32I+32J | >= | 0 |
| 25 | 33A+33C+33D+33E+33F+33G+33H+33I+33J | >= | 0 |
| 26 | 52A+52C+52D+52E+52F+52G+52H+52I+52J | <= | 0 |
| 27 | 53A+53C+53D+53E+53F+53G+53H+53I+53J | <= | 0 |
| 28 | 54A+54C+54D+54E+54F+54G+54H+54I+54J | <= | 0 |
| 29 | 55A+55C+55D+55E+55F+55G+55H+55I+55J | <= | 0 |
| 30 | 56A | <= | 0 |
| 31 | 58A+58C+58D+58E+58F+58G+58H+58I+58J | >= | 0 |
| 32 | 59A | <= | 0 |
| 33 | 60A | <= | 0 |
| 34 | 61A | <= | 0 |
| 35 | 62A | <= | 0 |
| 36 | 63A | <= | 0 |
| 37 | 64A | <= | 0 |

| | | | |
|---|---|---|---|
| 38 | 65A | <= | 0 |
| 39 | 66A | <= | 0 |
| 40 | 67A | <= | 0 |
| 41 | 68A | <= | 0 |
| 42 | 69A | <= | 0 |
| 43 | Each cell in row 70 (70B to 70K ) | <= | 0 |
| 44 | Each cell in row 71 (71B to 71K ) | <= | 0 |
| 45 | Each cell in row 72 (72B to 72K ) | <= | 0 |
| 46 | Each cell in row 73 (73B to 73K ) | <= | 0 |
| 47 | 74B | >= | 0 |
| 48 | 74C | >= | 0 |
| 49 | 74E | >= | 0 |
| 50 | 74G | <= | 0 |
| 51 | 74H | <= | 0 |
| 52 | 75B | >= | 0 |
| 53 | 75C | >= | 0 |
| 54 | 75E | >= | 0 |
| 55 | 76B | <= | 0 |
| 56 | 76C | <= | 0 |
| 57 | 76E | <= | 0 |
| 58 | 76G | >= | 0 |
| 59 | 76H | >= | 0 |
| 60 | 77B | <= | 0 |
| 61 | 77C | <= | 0 |
| 62 | 77E | <= | 0 |
| 63 | 78A | >= | 0 |
| 64 | 79A | >= | 0 |
| 65 | 80A | >= | 0 |
| 66 | 82A | >= | 0 |
| 67 | 83A | >= | 0 |
| 68 | 84A | >= | 0 |

| | | | |
|---|---|---|---|
| 69 | 85A | >= | 0 |
| 70 | 86A | >= | 0 |
| 71 | 87A | >= | 0 |
| 72 | 88A | >= | 0 |
| 73 | 89A | >= | 0 |

## Cross validation rules for FSA047 and FSA048 (combined)

| Validation number | Data element | | |
|---|---|---|---|
| 1 | FSA048(6A) + FSA048(6B) + FSA047(6A+6B+6C+-----+6n) +FSA048(6F) +FSA048(6G)+FSA048(6H)+FSA048(6I) +FSA048(6J)-FSA048(78A) | = | 0 |
| 2 | FSA048(7A) + FSA048(7B) + FSA047(7A+7B+7C+-----+7n) +FSA048(7F) +FSA048(7G)+FSA048(7H)+FSA048(7I) +FSA048(7J)-FSA048(79A) | = | 0 |
| 3 | FSA048(8A) + FSA048(8B) + FSA047(8A+8B+8C+-----+8n) +FSA048(8F) +FSA048(8G)+FSA048(8H)+FSA048(8I) +FSA048(8J)-FSA048(80A) | = | 0 |
| 4 | FSA048(9A) + FSA048(9B) + FSA047(9A+9B+9C+-----+9n) +FSA048(9F) +FSA048(9G)+FSA048(9H)+FSA048(9I) +FSA048(9J) | = | 0 |
| 5 | FSA048(10A) + FSA048(10B) +FSA047(10A+10B+10C+-----+10n) +FSA048(10F)+FSA048(10G)+FSA048(10H)+FSA048(10I) +FSA048(10J)-FSA048(82A) | = | 0 |
| 6 | FSA048(11A) + FSA048(11B) +FSA047(11A+11B+11C+-----+11n) +FSA048(11F)+FSA048(11G)+FSA048(11H)+FSA048(11I) +FSA048(11J)-FSA048(83A) | = | 0 |
| 7 | FSA048(12A) + FSA048(12B) +FSA047(12A+12B+12C+-----+12n) +FSA048(12F)+FSA048(12G)+FSA048(12H)+FSA048(12I) +FSA048(12J)-FSA048(84A) | = | 0 |
| 8 | FSA048(13A) + FSA048(13B) +FSA047(13A+13B+13C+-----+13n) +FSA048(13F)+FSA048(13G)+FSA048(13H)+FSA048(13I) +FSA048(13J)-FSA048(85A) | = | 0 |
| 9 | FSA048(14A) + FSA048(14B) +FSA047(14A+14B+14C+-----+14n) +FSA048(14F)+FSA048(14G)+FSA048(14H)+FSA048(14I) +FSA048(14J)-FSA048(86A) | = | 0 |
| 10 | FSA048(15A) + FSA048(15B) +FSA047(15A+15B+15C+-----+15n) +FSA048(15F)+FSA048(15G)+FSA048(15H)+FSA048(15I) +FSA048(15J)-FSA048(87A) | = | 0 |
| 11 | FSA048(16A) + FSA048(16B) +FSA047(16A+16B+16C+-----+16n) +FSA048(16F)+FSA048(16G)+FSA048(16H)+FSA048(16I) +FSA048(16J)-FSA048(88A) | = | 0 |
| 12 | FSA048(17A) + FSA048(17B) +FSA047(17A+17B+17C+-----+17n) | = | 0 |

| | | | |
|---|---|---|---|
| | +FSA048(17F)+FSA048(17G)+FSA048(17H)+FSA048(17I) +FSA048(17J)-FSA048(89A) | | |
| 13 | FSA048(20A) + FSA047(20A+20B+20C+------+20n) + FSA048(20F) + FSA048(20G) + FSA048(20H) + FSA048(20I) + FSA048(20J) | >= | 0 |
| 14 | FSA048(21A) + FSA047(21A+21B+21C+------+21n) + FSA048(21F) + FSA048(21G) + FSA048(21H) + FSA048(21I) + FSA048(21J) | >= | 0 |
| 15 | FSA048(22A) + FSA047(22A+22B+22C+------+22n) + FSA048(22F) + FSA048(22G) + FSA048(22H) + FSA048(22I) + FSA048(22J) | >= | 0 |
| 16 | FSA047(24A+24B+24C+------+24n) + FSA048(24F) + FSA048(24G) + FSA048(24H) + FSA048(24I) + FSA048(24J) | >= | 0 |
| 17 | FSA048(25B) + FSA047(25A+25B+25C+------+25n) + FSA048(25F) + FSA048(25G) + FSA048(25H) + FSA048(25I) + FSA048(25J) | >= | 0 |
| 18 | FSA048(26B) + FSA047(26A+26B+26C+------+26n) + FSA048(26F) + FSA048(26G) + FSA048(26H) + FSA048(26I) + FSA048(26J) | >= | 0 |
| 19 | FSA048(27B) + FSA047(27A+27B+27C+------+27n) + FSA048(27F) + FSA048(27G) + FSA048(27H) + FSA048(27I) + FSA048(27J) | >= | 0 |
| 20 | FSA048(28B) + FSA047(28A+28B+28C+------+28n) + FSA048(28F) + FSA048(28G) + FSA048(28H) + FSA048(28I) + FSA048(28J) | >= | 0 |
| 21 | FSA048(29B) + FSA047(29A+29B+29C+------+29n) + FSA048(29F) + FSA048(29G) + FSA048(29H) + FSA048(29I) + FSA048(29J) | >= | 0 |
| 22 | FSA048(30B) + FSA047(30A+30B+30C+------+30n) + FSA048(30F) + FSA048(30G) + FSA048(30H) + FSA048(30I) + FSA048(30J) | >= | 0 |
| 23 | FSA048(34B) + FSA047(34A+34B+34C+------+34n) + FSA048(34F) + FSA048(34G) + FSA048(34H) + FSA048(34I) + FSA048(34J) | <= | 0 |
| 24 | FSA048(35B) + FSA047(35A+35B+35C+------+35n) + FSA048(35F) + FSA048(35G) + FSA048(35H) + FSA048(35I) + FSA048(35J) | <= | 0 |
| 25 | FSA048(36B) + FSA047(36A+36B+36C+------+36n) + FSA048(36F) + FSA048(36G) + FSA048(36H) + FSA048(36I) + FSA048(36J) | <= | 0 |
| 26 | FSA048(37B) + FSA047(37A+37B+37C+------+37n) + FSA048(37F) + FSA048(37G) + FSA048(37H) + FSA048(37I) + FSA048(37J) | <= | 0 |
| 27 | FSA048(38B) + FSA047(38A+38B+38C+------+38n) + FSA048(38F) + FSA048(38G) + FSA048(38H) + FSA048(38I) + FSA048(38J) | <= | 0 |
| 28 | FSA048(39B) + FSA047(39A+39B+39C+------+39n) + FSA048(39F) + FSA048(39G) + FSA048(39H) + FSA048(39I) + FSA048(39J) | <= | 0 |
| 29 | FSA047(40A+40B+40C+------+40n) + FSA048(40F) + FSA048(40G) + FSA048(40H) + FSA048(40I) + FSA048(40J) | <= | 0 |
| 30 | FSA047(41A+41B+41C+------+41n) + FSA048(41F) + FSA048(41G) + FSA048(41H) + FSA048(41I) + FSA048(41J) | <= | 0 |
| 31 | FSA047(42A+42B+42C+------+42n) + FSA048(42F) + FSA048(42G) + FSA048(42H) + FSA048(42I) + FSA048(42J) | <= | 0 |

| | | | |
|---|---|---|---|
| 32 | FSA047(43A+43B+43C+------+43n) + FSA048(43F) + FSA048(43G) + FSA048(43H) + FSA048(43I) + FSA048(43J) | <= | 0 |
| 33 | FSA048(44A) + FSA047(44A+44B+44C+------+44n) + FSA048(44F) + FSA048(44G) + FSA048(44H) + FSA048(44I) + FSA048(44J) | <= | 0 |
| 34 | FSA048(45A) + FSA047(45A+45B+45C+------+45n) + FSA048(45F) + FSA048(45G) + FSA048(45H) + FSA048(45I) + FSA048(45J) | <= | 0 |
| 35 | FSA048(46A) + FSA047(46A+46B+46C+------+46n) + FSA048(46F) + FSA048(46G) + FSA048(46H) + FSA048(46I) + FSA048(46J) | <= | 0 |
| 36 | FSA048(47A) + FSA047(47A+47B+47C+------+47n) + FSA048(47F) + FSA048(47G) + FSA048(47H) + FSA048(47I) + FSA048(47J) | <= | 0 |
| 37 | FSA048(48A) + FSA047(48A+48B+48C+------+48n) + FSA048(48F) + FSA048(48G) + FSA048(48H) + FSA048(48I) + FSA048(48J) | <= | 0 |
| 38 | FSA048(49A) + FSA047(49A+49B+49C+------+49n) + FSA048(49F) + FSA048(49G) + FSA048(49H) + FSA048(49I) + FSA048(49J) | <= | 0 |
| 39 | FSA048(50A) + FSA047(50A+50B+50C+------+50n) + FSA048(50F) + FSA048(50G) + FSA048(50H) + FSA048(50I) + FSA048(50J) | <= | 0 |
| 40 | FSA048(51A) + FSA047(51A+51B+51C+------+51n) + FSA048(51F) + FSA048(51G) + FSA048(51H) + FSA048(51I) + FSA048(51J) | <= | 0 |

## FSA050 Liquidity Buffer Qualifying Securities

The purpose of this *data item* is to record details of an *ILAS BIPRU firm's* unencumbered assets eligible for inclusion in its liquid assets buffer as defined in *BIPRU* 12.7. See further the *rules* and *guidance* in *SUP* 16.12.4.

A *firm* should complete this *data item* for each of the securities reported in column A, row 6 in Part 2 of FSA048.

### Valuation

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on valuation set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, such as an *incoming EEA firm*, should follow its applicable accounting standards.

### Currency

The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Amounts should be entered in multiples of 1,000 of the relevant currency unit.

### General

A *firm* reports unencumbered holdings of securities eligible for inclusion in its liquid assets buffer in column A, row 6 in Part 2 of FSA048. A *firm* should report in this *data item* a further breakdown by issuer of those securities.

### Data elements

These are referred to by row first, and then by column, so *data element* 2B will be the element numbered 2 in column B.

### Completion and submission to the FSA

A *firm* should complete this *data item* on a contractual basis irrespective of whether the position in question is held in the banking book or *trading book*.

A *firm* should report the clean market value of unencumbered securities held in its liquid assets buffer, according to the issuer in rows 1 to 24.

A *firm* should only report balances in row 24 to the extent that it has unencumbered securities delivered under reverse repo transactions where it cannot identify the issuer, but that all eligible issuers would qualify for inclusion in the liquid assets buffer as defined in *BIPRU* 12.7.

## Validation rules

No rule as column A can be zero, positive or negative.

## Cross validation rules between FSA048 and FSA050

(General note: cross validation rule should be applied only when the returns under consideration are for the same reporting date)

| Validation number | Data element | | |
|---|---|---|---|
| 1 | FSA050(1A) + FSA050(2A)+FSA050(3A)+------ +FSA050(23A)+FSA050(24A) | = | FSA048(6A) |

**FSA051 Funding Concentration**

The purpose of this *data item* is to record details of an *ILAS BIPRU firm's* funding concentrations. See further the *rules* and *guidance* in *SUP* 16.12.4.

**Valuation**

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on valuation set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, such as an *incoming EEA firm*, should follow its applicable accounting standards.

**Currency**

The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

**General**

This *data item* provides information on funding concentration risk of the *firm*.

**Data elements**

These are referred to by row first, and then by column, so *data element* 2B will be the element numbered 2 in column B.

**Completion and submission to the FSA**

A *firm* should complete this *data item* on a contractual basis irrespective of whether the position in question is held in the banking book or *trading book*.

The following fields are required for each row on this *data item*.

**Column A Counterparty**

A *firm* should report the identity of the ultimate parent of the entity which provides the *firm* with funding. As an example, where a *firm* raises funding from various entities that are each members of the same *group*, the *firm* should aggregate all such amounts and attribute them to the ultimate parent.

However, a *firm* should distinguish between entities in a *group* investing their own funds and funds which they invest on behalf of others, for example, as a fiduciary. If a fiduciary money manager provides funding to the *firm*, such amounts should not be aggregated outside the entity which holds the fiduciary responsibility for managing the funds. For example, if a Bank XYZ provides funding of £50m to the *firm* and it asset management subsidiary provides funding of £100m from a one or more fiduciary accounts, the *firm* should report this as two sources of funding in separate rows.

Where there is a lack of clarity about the ultimate parent to which funding should be attributed, a *firm* should complete this column of this *data item* on a “best efforts” basis.

**Column B Amount**

Amounts should be entered in multiples of 1,000 of the relevant currency unit.

A *firm* should report the total amount of funding received from the counterparty identified in Column A.

**Column C Weighted average residual maturity**

A *firm* should report figures in this column in months rounded to one decimal place.

In relation to each counterparty identified in column A, a *firm* should report the weighted average remaining maturity of funding provided by that counterparty and by any other counterparty in that counterparty’s *group* which is reported in column B. An example of this would be the following: XYZ Bank receives funding from two ABC Bank group entities. These are aggregated into one line. One ABC Bank entity provides 50% of the funding with 3 months remaining to maturity, while the other ABC Bank entity provides 50% of the funding with 6 months remaining to maturity, producing a weighted average remaining maturity of 4.5 months.

**Part 1 Wholesale deposits**

In this part of the *data item* the *firm* should analyse and report the counterparties responsible for the 30 largest concentrations of deposits reported in lines 45 to 50 inclusive of FSA 048.

**Part 2 Repo funding**

In this part of the *data item* a *firm* should analyse and report the counterparties responsible for the 30 largest concentrations of repo funding as reported in Part 5 of FSA 048.

**Validation rules**

| Validation number | Data element | | |
|---|---|---|---|
| 1 | Each cell in column B | >= | 0 |
| 2 | Each cell in column C | >= | 0 |

## FSA052 Pricing Data

The purpose of this *data item* is to record details relating to the average transaction volume of, and prices which the *firm* pays for, certain of its wholesale liabilities. See further the *rules* and *guidance* in *SUP* 16.12.4.

### Valuation

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, such as an *incoming EEA firm*, should follow its applicable accounting standards.

### Currency

A *firm* should report any wholesale liabilities denominated in sterling in rows 1 to 4, in US dollars in rows 5 to 8 and in euro in rows 9 to 12. A *firm* does not need to report liabilities denominated in any other currency in this *data item*.

Spreads should be reported as a percentage, rounded to two decimal places and volumes should be reported in multiples of 1,000's.

### Data elements

These are referred to by row first, and then by column, so *data element* 2B will be the element numbered 2 in column B.

### Completion and submission to the FSA

A *firm* should complete this *data item* on a contractual basis based on the trade date of the liability in question, recording all relevant liabilities issued during the reporting period.

### General

There are three different pieces of information required about each type of liability reportable in this *data item*:

(1) average spread paid;

(2) volume raised; and

(3) maturity of the liability.

For the purpose of this *data item*, a *firm* should report the liabilities of the following types in the relevant rows for the currency

### (i) Cash deposits

A *firm* should report all fixed term cash deposits reportable in lines 45 to 49 of FSA 048 in row 1 if denominated in GBP, in row 5 if denominated in USD or in row 9 if denominated in EUR.

**(ii) Senior unsecured securities**

A *firm* should report all senior unsecured securities issued reportable in line 40 of FSA 048 in row 2 if denominated in GBP, in row 6 if denominated in USD or in row 10 if denominated in EUR.

**(iii) Covered Bonds**

A *firm* should report all covered bonds encumbering the *firm's* own assets the issuance of which would be reportable in line 43 of FSA 048 in row 3 if denominated in GBP, in row 7 if denominated in USD or in row 11 if denominated in EUR.

**(iv) Asset-backed securities (including ABCP)**

A *firm* should report all debt issued by the *firm's* SSPEs as reported on line 51 of FSA 048. A *firm* should report such liabilities in row 4 if denominated in GBP, in row 8 if denominated in USD or in row 12 if denominated in EUR.

Weighted Average Spread and Volume Analysis:

A *firm* should report the weighted average spread paid and volume data in the following maturity bands, according to the maturity of the instrument issued:

(1) ≥ 1 month ≤ 3 months in columns A and B;

(2) > 3 months ≤6 months in columns C & D;

(3) > 6 months ≤ 1 year in columns E & F;

(4) > 1 year ≤ 2 years in columns G & H;

(5) > 2 years in columns I & J.

For the purposes of this *data item*, a *firm* should ignore the time period between trade date and settlement date in calculating the maturity of a liability, e.g. a three month liability settling in two weeks time would, for the purposes of this *data item*, be considered as having a three month maturity and be reported in columns A & B.

In relation to each instrument of a type identified in this *data item* and issued by the *firm* or the *firm's* SSPEs, it should report:

(1) the volume issued; and
(2) the average spread paid (weighted by volume).

For the purposes of reporting the volume of liabilities issued, a *firm* should sum the net proceeds of each liability in the relevant maturity band according to the applicable currency.

For the purpose of reporting the average spread paid, a *firm* should report:

(1) for an instrument with an original maturity of less than or equal to one year, the spread payable by the *firm* for that liability, if it were to have been swapped to the benchmark overnight index for the appropriate currency; and

(2) for an instrument with an original maturity in excess of one year, the spread at issuance were it to be swapped to the relevant benchmark floating three month LIBOR for GBP and USD and EURIBOR for EUR..

For the purposes of calculating the average spread paid a *firm* should calculate the all-in cost in the currency of issue ignoring any FX swap, but including any premium or discount and fees payable or receivable, with the term of any theoretical or actual interest rate swap matching the term of the liability.

## Validation rules

| Validation number | Data element | | |
|---|---|---|---|
| 1 | Each cell in columns B | >= | 0 |
| 2 | Each cell in columns D | >= | 0 |
| 3 | Each cell in columns F | >= | 0 |
| 4 | Each cell in columns H | >= | 0 |
| 5 | Each cell in columns J | >= | 0 |

## FSA053 Retail, SME and Large Enterprises Type B Funding

The purpose of this *data item* is to record details relating to a *firm's* retail accounts and non-credit sensitive corporate accounts. See further the *rules* and *guidance* in *SUP* 16.12.4.

### Valuation

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, such as an *incoming EEA firm*, should follow its applicable accounting standards.

### Currency

All figures should be entered in multiples of 1,000 of the relevant currency unit.

The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

### Data elements

These are referred to by row first, and then by column, so *data element* 2B will be the element numbered 2 in column B.

### Completion and submission to the FSA

A *firm* should complete this *data item* on a contractual basis based on an analysis of the *firm's* balance sheet on the reporting date in question.

### General

A *firm* should report in Column A the outstanding balance at the close of business of the final business day of the month for which the *data item* is submitted, in each category of account identified in this *data item*.

### Part 1 Retail deposits (type A and type B)

A *firm* should report information related to the retail accounts reported in lines 54 and 55 of FSA 048 in rows 1 to 5 of Part 1 of this *data item*.

A *firm* should report Type A balances in Column A of Part 1 and Type B balances in Column B.

**1 Current and/or transactional accounts**

A *firm* should report here the total balances of retail deposits held in instant access current and/or transactional accounts. Transactional accounts are those used to process transactions such as day-to-day outgoings, salary and bill payments.

**2 Tax-advantaged savings accounts**

A *firm* should report here the total balances of cash deposits held in ISA or other tax-advantaged accounts.

**3 On demand or instant access accounts**

A *firm* should report here the total balances of any remaining instant access retail accounts not reported in lines 1 & 2 of this *data item*.

**4 Fixed term accounts**

A *firm* should report here the total balances of all retail deposits held in fixed term deposit accounts in relation to which a depositor is unable to access their deposit prior to its contractual maturity.

**5 Fixed notice accounts**

A *firm* should report here the total balances of all retail deposits held in fixed notice deposit accounts in relation to which a depositor can:

- require the early repayment of an otherwise fixed term deposit by paying an early access charge; or,
- require the repayment of a deposit by giving a specified notice period.

**Part 2 SME and large enterprises Type B**

A *firm* should report information related to the SME and Large financial Enterprise (Type B**)** accounts reported in lines 52 and 53 of FSA 048 in rows 6 to 9.

**6 Current and/or transactional accounts**

A *firm* should report here the total of deposits held in instant access current and transactional accounts**.** Transactional accounts are those used to process transactions such as day-to-day outgoings, salary and invoice payments.

**7 Tax-advantaged savings accounts**

A *firm* should report here the total balances of deposits held in tax-advantaged accounts.

**8 On demand or other instant access accounts**

A *firm* should report here the total balances of any remaining instant access accounts not reported in lines 6 or 7 of this *data item*.

### 9 Fixed term accounts

A *firm* should report here the total balances of all deposits held in fixed term deposit accounts in relation to which a depositor is unable to access their deposit prior to its contractual maturity.

### 10 Fixed notice accounts

A *firm* should report here the total balances of all deposits held in fixed notice deposit accounts in relation to which a depositor can:

- require the early repayment of an otherwise fixed term deposit by paying an early access charge; or,
- require the repayment of a deposit by giving a specified notice period.

## Part 3 Deposit insurance schemes such as FSCS

Part 3 of this *data item* relates to an analysis of a *firm's* retail deposits, as reported on lines 54 and 55 of FSA 048, insured by *FSCS* or other similar deposit insurance schemes.

In relation to each depositor who would in principle be eligible to claim compensation from the *FSCS* or another similar deposit insurance scheme in respect of his deposits with a *firm*, that *firm* should report the protected balances of accounts covered by the scheme in question. A *firm* should follow the current rules of any relevant scheme in reporting the protected balances.

### 11 Deposits covered by deposit insurance schemes such as FSCS

A *firm* should report here the total protected balances held in deposit accounts that would in principle be covered by the *FSCS* or other similar deposit insurance scheme, up to the maximum amount that depositor may be eligible to claim under the relevant scheme.

### 12 Deposits not covered by deposit insurance schemes such as FSCS

A *firm* should report here the excess of deposit account balances over the total protected balances held in those accounts that would in principle be covered by the *FSCS* or other similar deposit insurance scheme.

## Validation rules

| Validation number | Data element | | |
|---|---|---|---|
| 1 | 1A | >= | 0 |
| 2 | 1B | >= | 0 |
| 3 | 2A | >= | 0 |

| | | | |
|---|---|---|---|
| 4 | 2B | >= | 0 |
| 5 | 3A | >= | 0 |
| 6 | 3B | >= | 0 |
| 7 | 4A | >= | 0 |
| 8 | 4B | >= | 0 |
| 9 | 5A | >= | 0 |
| 10 | 5B | >= | 0 |
| 11 | 6B | >= | 0 |
| 12 | 7B | >= | 0 |
| 13 | 8B | >= | 0 |
| 14 | 9B | >= | 0 |
| 15 | 10B | >= | 0 |
| 16 | 11A | >= | 0 |
| 17 | 12A | >= | 0 |

## Cross validation rules between FSA048 and FSA053

(General note: cross validation rule should be applied only when the returns under consideration are for the same reporting date)

| Validation number | Data element | | |
|---|---|---|---|
| 1 | ABS{FSA053(1A+2A+3A+4A+5A)} | = | ABS{FSA048(54A+54C+54D+54E+54F+54G+54H+54I+54J)} |
| 2 | ABS{FSA053(1B+2B+3B+4B+5B)} | = | ABS{FSA048(55A+55C+55D+55E+55F+55G+55H+55I+55J)} |
| 3 | ABS{FSA053(6B+7B+8B+9B+10B)} | = | ABS{FSA048(52A+52C+52D+52E+52F+52G+52H+52I+52J) + FSA048(53A+53C+53D+53E+53F+53G+53H+53I+53J)} |

**FSA054 Currency Analysis**

The purpose of this *data item* is to record details of a *firm's* currency mismatches. See further the *rules* and *guidance* in *SUP* 16.12.4.

**Valuation**

Except where outlined, a *firm* should follow the *FSA's rules* and *guidance* on valuation set out in *GENPRU* 1.3. A *firm* not subject to *GENPRU* 1.3, such as an *incoming EEA firm*, should follow its applicable accounting standards.

**Currency**

Not relevant.

**Data elements**

These are referred to by row first, and then by column, so *data element* 2B will be the element numbered 2 in column B.

**Completion and submission to the FSA**

A *firm* should complete this *data item* on a contractual basis based on an analysis of the *firm's* balance sheet as reportable for FSA 048, on the reporting date in question.

**General**

This report has two aspects. It asks a *firm* to report:

(1) the currencies in which that *firm's* assets and liabilities and shareholders' equity are denominated; and

(2) the percentage of that *firm's* total assets and liabilities and shareholders' equity which are denominated in those currencies.

A *firm* should exclude from its balance sheet derivative financial instruments as defined under IFRS.

In considering whether a *firm's* assets, liabilities or shareholders' equity are denominated in a specific currency, a *firm* should ignore the effect of any *derivatives,* e.g. if a *firm* issues a liability in GBP and enters into a *derivative* to swap the cash flows of that liability to another currency, for the purposes of this *data item*, it would be denominated in GBP.

For each row from 1 to 13, a *firm* should report column A and B. For example, for row 1, cell 1A should contain GBP (sterling) assets, excluding derivative financial instruments, expressed as a percentage (rounded to two decimal places) of the total assets, excluding derivative financial instruments, of the *firm*.

## Validation rules

| Validation number | Data element | | |
|---|---|---|---|
| 1 | Each cell in column A | >= | 0 |
| 2 | Each cell in column B | >= | 0 |
| 3 | Each cell in column A | <= | 100% |
| 4 | Each cell in column B | <= | 100% |
| 5 | 1A+2A+3A+----+12A+13A | = | 100% |
| 6 | 1B+2B+3B+----+12B+13B | = | 100% |

**FSA055 Systems and Controls Questionnaire**

The purpose of this *data item* is to enable the *FSA* to monitor a *non-ILAS BIPRU firm's* compliance with the requirements set out in *BIPRU* 12.3 (Liquidity risk management) and *BIPRU* 12.4 (Stress testing and contingency funding).

In relation to the questions in FSA055, a *firm* should, as appropriate, answer "yes" or "no", or choose a response from the drop-down menu.

Should a *firm* answer "no" to the first question in FSA055, it need not complete the rest of the *data item*.

## Validation rules

All cells are controlled by drop-down menu. The menu option for each row is as under:

| Validation number | Data element | Menu options |
|---|---|---|
| 1 | 1A | Yes / No |
| 2 | 2A | Yes / No |
| 3 | 3A | Yes / No |
| 4 | 4A | Yes / No |
| 5 | 5A | Yes / No |
| 6 | 6A | Yes / No |
| 7 | 7A | Yes / No |
| 8 | 8A | <= 52 |
| 9 | 9A | Yes / No |
| 10 | 10A | Monthly/Quarterly/Semi-annually/Annually/less than once a year |
| 11 | 11A | <=52 |
| 12 | 12A | Yes / No |
| 13 | 13A | Monthly/Quarterly/Semi-annually/Annually/less than once a year |
| 14 | 14A | Yes / No |
| 15 | 15A | Yes / No |

| | | |
|---|---|---|
| 16 | 16A | Yes / No |
| 17 | 17A | Yes / No |
| 18 | 18A | Yes / No |
| 19 | 19A | Yes / No |
| 20 | 20A | Yes / No |

After SUP 16 Annex 25G, insert the following new Annex. The text is not underlined.

SUP 16 Annex 26G Guidance on designated liquidity groups in SUP 16.12

Purpose of this guidance

1 G The purpose of this Annex is to explain the different types of *defined liquidity group* dealt with in *SUP* 16.12 (Integrated Regulatory Reporting) and what a group liquidity reporting firm is.

2. G *Defined liquidity groups* are relevant to liquidity reporting by *ILAS BIPRU firms*. Liquidity reporting under *SUP* 16.12 relates to a *firm* on a solo or *branch* basis and in addition by reference to a *firm's designated liquidity group*.

The two main types of designated liquidity groups

3. G *Defined liquidity groups* are divided into two types:

(1) a *DLG by default*; and

(2) a *DLG by modification* (this type is subdivided into other types as explained in this Annex).

DLG by default

4. G Broadly speaking, a *firm's DLG by default* is made up of the members of the *firm's group* on which it relies for liquidity or that rely on the *firm*. It also includes certain funding vehicles. It covers each entity:

(1) that provides or is committed to provide material support to the *firm* against *liquidity risk*; or

(2) to which the *firm* provides or is committed to provide material support against *liquidity risk*; or

(3) that has reasonable grounds to believe that the *firm* would supply such support, and vice versa.

5. G Paragraph (b) of the definition of *DLG by default* deals with a case in which there are several *UK ILAS BIPRU firms* in the same *group*. The effect is this. Say that there are two *UK ILAS BIPRU firms*, A and B in the group. Say that A relies on, or is relied on by, companies M, N, O and P. B relies on, or is relied on by, companies P, Q, R and S. The result is that A and B have the same *DLG by default*, which is made up of companies A, B, M, N, O, P, Q, R and S.

6. G There is an exclusion relating to *participations*. Say that 70% of B is owned by unconnected third party shareholders and that A and B rely on each other. A will report on the basis of a group made up of A, B, M, N, O and P. B will report on the basis of a group made up of A, B, P, Q, R and S.

7. G The full definition is set out in the *Glossary*.

8. G The definition applies automatically. It does not depend, for example, on the *firm* getting a *waiver* under *BIPRU* 12 (Liquidity). However, in practice it is likely that the *firm* and the *FSA* will agree who is in the *firm's DLG by default*.

9. G A *DLG by default* is only relevant to a *UK lead regulated firm*.

10. G A *firm* may have a *DLG by default* and a *DLG by modification* at the same time.

Types of DLG by modification

11. G A *DLG by modification* only applies to a *firm* with an *intra-group liquidity modification*. *BIPRU* 12.8 has more about *intra-group liquidity modifications*.

12. G Every *firm* subject to *BIPRU* 12 (Liquidity) is subject to the *overall liquidity adequacy rule*. The effect of that *rule* is that every *firm* is required to be self-sufficient in terms of liquidity adequacy and to be able to satisfy that *rule* relying on its own liquidity resources.

13. G The *FSA* recognises that a *firm* may be part of a wider *group* which manages its liquidity on a *group*-wide basis. This is recognised by an *intra-group liquidity modification*. A *DLG by modification* arises out of the *intra-group liquidity modification*.

14. G There are two types of *DLG by modification*:

    (1) a *DLG by modification (firm level)*; and

    (2) a *non-UK DLG by modification (DLG level)*.

Types of DLG by modification (firm level)

15. G If the *firm* obtains an *intra-group liquidity modification* it will permit the *firm* to rely on liquidity support from elsewhere in its *group* for the purposes of the *overall liquidity adequacy rule*. A *DLG by modification (firm level)* is made up of the *group* members on which the *firm* can rely for these purposes, together with the *firm* itself. It is called 'firm level' because it relates to the way that the *overall liquidity adequacy rule* is applied to the *firm*.

16. G There are two types of *DLG by modification (firm level)*:

(1) a *UK DLG by modification*; and

(2) a *non-UK DLG by modification (firm level)*.

17. G It is not possible for a *firm* to have both types.

18. G A *UK DLG by modification* is made up solely of *UK ILAS BIPRU firms*. That means that the *intra-group liquidity modification* will permit the *firm* to rely on liquidity support from other specified *UK ILAS BIPRU firms* elsewhere in its *group*, but no one else.

19. G A *non-UK DLG by modification (firm level)* is defined to mean any kind of *DLG by modification (firm level)* except for a *UK DLG by modification*. In practice though an *intra-group liquidity modification* setting up a *non-UK DLG by modification (firm level)* will be expected to allow the *firm* to rely on support from a *parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom* or on *subsidiary undertakings* of that parent which are themselves constituted under the law of a country or territory outside the *United Kingdom*. These parents and their subsidiaries (together with the *firm* itself) will make up the *non-UK DLG by modification (firm level)*. It is not envisaged that a *non-UK DLG by modification (firm level)* will include *UK* members (other than the *firm* itself). That is why this type of *defined liquidity group* is called a *non-UK DLG by modification (firm level)*.

Non-UK DLG by modification (DLG level)

20. G It is envisaged that if a *firm* has a *UK DLG by modification*, the *intra-group liquidity modification* will apply the *overall liquidity adequacy rule* to the *UK DLG by modification* as a whole. The starting position is that the *UK DLG by modification* should be self-sufficient for liquidity purposes.

21. G However, the *intra-group liquidity modification* may permit the *UK DLG by modification* to rely on liquidity support from elsewhere in the *group*. In this case this other part of the group, together with the *UK DLG by modification*, forms the *non-UK DLG by modification (DLG level)*. It is called 'DLG level' because it relates to the way that the *overall liquidity adequacy rule* is applied to the *firm's DLG*.

22. G It is not envisaged that a *firm* with a *non-UK DLG by modification (firm level)* will have a *non-UK DLG by modification (DLG level)*.

23. G It is envisaged that the only *group* members on which the *non-UK DLG by modification (firm level)* will be able to rely for these purposes will be foreign parents and others described in paragraph 19 of *SUP* 16 Annex 26. That is why it is called a *non-UK DLG by modification (DLG level)*.

Combinations of DLG

24 G That means that the types of *DLG by modification* a *firm* may have are these:

(1) a *UK DLG by modification* and nothing else; or

(2) a *non-UK DLG by modification (firm level)* and nothing else; or

(3) a *UK DLG by modification* and *non-UK DLG by modification (DLG level)*.

Group liquidity reporting firm

25. G The defined term *group liquidity reporting firm* is also used in connection with reporting at the level of a *defined liquidity group*. Its purpose is to identify the *firms* on which the reporting obligation falls.

26. G The general principle is that reporting is done by *UK ILAS BIPRU firms*. In the case of a *DLG by modification*, the reporting will be done by *UK ILAS BIPRU firms* that have been granted the *intra-group liquidity modification*.

27. G However there may be other types members of the *defined liquidity group*. For example, say that *UK ILAS BIPRU firm* A has a *defined liquidity group* made up of companies B, C, D and E. Say that B is an *authorised person* but is not a *UK ILAS BIPRU firm*, that C is a *UK* company that is not *authorised* and that D and E are foreign and not *authorised*. A, B, C, D and E are all members of the *defined liquidity group*. However B, C, D and E do not have to report on the *defined liquidity group* under *SUP* 16.12. That obligation falls on A. A is the *group liquidity reporting firm*.

**Part 3: Comes into force on 1 October 2010**

In Part 3 of this Annex underlining indicates new text and striking through indicates deleted text.

Data item FSA011 in SUP 16 Annex 24R (Building society liquidity) is amended as follows.

**FSA011**
**Building society liquidity**

| | | ~~A~~ | ~~B~~ | ~~C~~ | ~~D~~ | ~~E~~ |
|---|---|---|---|---|---|---|
| | ~~Liquid assets realisable in up to 8 days~~ | ~~Book value~~ | ~~Ineligible amount~~ | ~~Market value~~ | ~~Discounted value~~ | ~~Amount of prudential liquidity~~ |
| ~~1~~ | ~~Gilts with residual maturities of <1 year~~ | | | | | |
| ~~2~~ | ~~Gilts with residual maturities 1-5 years~~ | | | | | |
| ~~3~~ | ~~Gilts with residual maturities over 5 years~~ | | | | | |
| ~~4~~ | ~~Total gilts~~ | | | | | |
| ~~17~~ | ~~Qualifying Money Market Funds~~ | | | | | |
| ~~5~~ | ~~Other~~ | | | | | |
| ~~6~~ | ~~Liquid assets realisable from 8 days to 3 months~~ | | | | | |
| ~~7~~ | ~~Liquid assets realisable in 3 months and over~~ | | | | | |
| ~~8~~ | ~~**Total liquid assets**~~ | | | | | |

| | | Amount |
|---|---|---|
| 9 | SDL at reporting date | |

**Amounts of ~~prudential~~ 8 day liquidity at any time during the month (end of day balance)**

| | | A | ~~B~~ | ~~C~~ |
|---|---|---|---|---|
| | | Amount | ~~As % of SDL on that day~~ | ~~Date~~ |
| ~~10~~ | ~~Minimum total prudential liquidity during quarter~~ | | | |
| ~~11~~ | ~~Maximum total prudential liquidity during quarter~~ | | | |
| 12 | Building society holdings - at reporting date | | | |

**Specialist data**

| | | |
|---|---|---|
| 13 | Business assets not FSRP as % of business assets | |
| 14 | Deposits and loans as % of SDL | |
| 15 | Amount of offshore deposits | |
| 16 | Large shareholdings as % of SDL | |

The guidance notes for data item FSA011 in SUP 16 Annex 25G (Building society liquidity) are amended as follows.

## FSA011 – Building society liquidity

This data item is used to monitor the liquidity position of *building societies* under *IPRU(BSOC)*.

**Valuation**

For the general policy on valuation, please see the rules and guidance set out in *GENPRU* 1.3.

**Currency**

You should report in the currency of your annual audited accounts ie in either Sterling, Euro, US dollars, Canadian dollars, Swedish Kronor~~Kroner~~, Swiss Francs or Yen. Figures should be reported in 000s.

**Data elements**

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

**Definitions**

Column A Values here should be reported on the same basis as they are reported in the balance sheet (FSA001), except they should include accrued interest for each item. It may include items which are not eligible for inclusion within the prudential liquidity calculation.

~~Column B These amounts do not qualify as prudential liquidity. See *IPRU(BSOC)* Annex 5 for a list of assets that are ineligible.~~

~~Column C These may be the same value as in Column A.~~

~~Column D This is the result of applying the discount factors set out in *IPRU(BSOC)* 5.4.4G.~~

~~Column E The amount of prudential liquidity.~~

~~**1-5 Liquid assets realisable in up to 8 days**~~

~~**4 Total gilts**~~

~~Include all gilt edged securities, according to their residual maturity. This is the sum of rows 1 to 3.~~

~~**17 Qualifying Money Market Funds**~~

~~See Annex 5A in *IPRU(BSOC)* Chapter 5, and paragraph 5.4.3 in the same chapter.~~

~~**5 Other**~~

~~Includes cash; current account balances; Treasury, local authority and eligible bank bills; deposits with local authorities, banks and building societies with not more than 8 days notice or within 8 days of maturity; Certificates of Deposit (CDs) issued by credit institutions with 3 months or less to maturity; and commercial paper with a residual maturity up to 1 month.~~

~~**6 Liquid assets realisable from 9 days to 3 months**~~

~~This is the portion of those assets defined in *IPRU(BSOC)* Annex 5A that are realisable from 9 days up to 3 months.~~

~~**7 Liquid assets realisable in 3 months and over**~~

~~This is the portion of those assets defined in *IPRU(BSOC)* Annex 5A that are realisable in 3 months and over.~~

~~**8A Book value of total liquid assets**~~

~~The sum of all liquid assets (data elements 4A to 7A). See *IPRU(BSOC)* Annex 5 for a list of those items that can be regarded as liquid assets.~~

~~**8B Ineligible liquid assets**~~

~~The sum of those amounts that are ineligible for inclusion as prudential liquidity (data elements 4B to 7B). See *IPRU(BSOC)* Annex 5 for a list of those items that can be regarded as eligible.~~

~~**8E Total amount of prudential liquidity**~~

~~This is the sum of data elements 4E to 7E.~~

**9A SDL at reporting date**

This is calculated as the sum of share liabilities including interest accrued, plus deposits and debt securities including interest accrued. See *IPRU(BSOC)* 5.3.2G for a definition of SDL.

~~**10A-10C Minimum total prudential liability in the quarter**~~

~~This is the minimum amount of total prudential liquidity held, based on end day positions, during the quarter. SDL on the relevant day should be the based on the estimated SDL on the relevant day. Dates should be reported in the format 'ddmmyy'.~~

**~~11A-11C Maximum total prudential liability in the quarter~~**

~~This is the maximum amount of total prudential liquidity held, based on end day positions, during the quarter. SDL on the relevant day should be the based on the estimated SDL on the relevant day. Dates should be reported in the format 'ddmmyy'.~~

**12A Building society holdings at reporting date**

This is the total of liquid asset holdings with all other societies in total, and includes any undrawn committed facilities provided to societies. It covers securities and money market instruments issued by and deposits placed with any other building society.

**Specialist data**

This is the value of funding accounted for by those elements which are restricted (ie funding excluding shares held by individuals).

The purpose of 13A and 14A is to report the actual value of the QE of the statutorily defined percentages relating to the funding and lending nature limits.

**13A Business assets not FSRP as % of business assets**

This is the value of business assets that are not fully secured on residential property (FSRP) as a % of total business assets. It is monitored under Section 6 of the Building Societies Act 1986.

**14A Deposits and loans as % of SDL**

These are monitored under Section 7 of the Building Societies Act 1986.

**15A Amount of offshore deposits**

This is the amount of deposits taken by societies' undertakings doing deposit taking offshore (eg in the Channel Islands or Isle of Man), or other undertakings established in other countries primarily to take deposits.

**16A Large shareholdings as % of SDL**

This item relates to the aggregate balances on both share and deposit holdings (where a single holding in respect of an individual is the totality of accounts held by that individual), excluding accrued interest, which are each in excess of 0.25% of total SDL.

# ~~FSA011 – Building society liquidity validations~~

## ~~Internal validations~~

~~Data elements are referenced by row then column.~~

| ~~Validation number~~ | ~~Data element~~ | | |
|---|---|---|---|
| ~~1~~ | ~~4A~~ | = | ~~1A + 2A + 3A~~ |
| ~~2~~ | ~~4C~~ | = | ~~1C + 2C + 3C~~ |
| ~~3~~ | ~~4D~~ | = | ~~1D + 2D + 3D~~ |
| ~~4~~ | ~~4E~~ | = | ~~4D~~ |
| ~~5~~ | ~~5E~~ | = | ~~5A - 5B~~ |
| ~~6~~ | ~~6E~~ | = | ~~6A - 6B~~ |
| ~~7~~ | ~~7E~~ | = | ~~7A - 7B~~ |
| ~~8~~ | | | ~~[deleted – replaced by validation 14]~~ |
| ~~9~~ | ~~8B~~ | = | ~~5B + 6B + 7B~~ |
| ~~10~~ | | | ~~[deleted – replaced by validation 15]~~ |
| ~~11~~ | | | ~~[deleted]~~ |
| ~~12~~ | ~~11A~~ | ~~>~~ | ~~10A~~ |
| ~~13~~ | ~~17E~~ | = | ~~17A~~ |
| ~~14~~ | ~~8A~~ | = | ~~4A + 17A + 5A + 6A + 7A~~ |
| ~~15~~ | ~~8E~~ | = | ~~4E + 17E + 5E + 6E + 7E~~ |

# Detailed reporting requirements by type of firm

## Reporting requirements – standard ILAS firms

| Data item | Description | Frequency | Submission deadlines |
|---|---|---|---|
| **FSA047:** Daily Flows[35] | Collects daily flows out to three months to analyse survival periods and spot potential liquidity squeezes early | Business-as-usual (BAU): Weekly<br>Firm-specific and/or market-wide liquidity stress: Daily | *BAU:* End-of-day (22.00 London time) Monday for the week ending the previous Friday<br>*Stress:* End of the following business day for the previous business day |
| **FSA048:** Enhanced Mismatch Report (EMR) | Captures the ILAS risk drivers and contractual flows across the full maturity spectrum | As above | As above |
| **FSA050:** Liquidity Buffer Qualifying Securities | Provides more granular analysis of firms' marketable asset holdings | Monthly | 15 business days after month end |
| **FSA051:** Funding Concentration | Captures firms' borrowings from unsecured wholesale funders (excluding primary issuance), by counterparty class | Monthly | 15 business days after month end |
| **FSA052:** Wholesale Liabilities | Collects daily transaction prices and transacted volumes for wholesale unsecured liabilities | Weekly | End-of-day Tuesday for the week ending the previous Friday |
| **FSA053:** Retail, SME and Large Enterprises Type B and Corporate Funding | Captures firms' retail and corporate funding profiles and the stickiness of various retail deposits | Quarterly | 15 business days after quarter end |
| **FSA054:** Currency Analysis | Provides an analysis of foreign exchange (FX) exposures on firms' balance sheets | Quarterly | 15 business days after quarter end |

35 Where branches or UK subsidiaries of foreign firms have been granted a modification, only FSA047 and FSA048 have to be reported on a whole-firm basis, and at most quarterly. The submission deadline in this case is one month.

## Reporting requirements – simplified ILAS firms and low-frequency reporters

| Data item | Description | Frequency | Submission deadlines |
|---|---|---|---|
| **FSA047:** Daily Flows[36] | Collects daily flows out to three months to analyse survival periods and spot potential liquidity squeezes early | Business-as-usual (BAU): Monthly<br>Firm-specific and/or market-wide liquidity stress: Weekly | *BAU:* 15 business days after month end<br>*Stress:* End-of-day Monday for the week ending the previous Friday |
| **FSA048:** Enhanced Mismatch Report (EMR) | Captures the ILAS risk drivers and contractual flows across the full maturity spectrum | As above | As above |
| **FSA050:** Liquidity Buffer Qualifying Securities | Provides more granular analysis of firms' marketable asset holdings | Monthly | 15 business days after month end |
| **FSA051:** Funding Concentration | Captures firms' borrowings from unsecured wholesale funders (excluding primary issuance), by counterparty class | Monthly | 15 business days after month end |
| **FSA052:** Wholesale liabilities | Collects daily transaction prices and transacted volumes for wholesale unsecured liabilities | Monthly | 15 business days after month end |
| **FSA053:** Retail, SME and large enterprises Type B and Corporate Funding | Captures firms' retail and corporate funding profiles and the stickiness of various retail deposits | Quarterly | 15 business days after quarter end |
| **FSA054:** Currency Analysis | Provides an analysis of foreign exchange (FX) exposures on firms' balance sheets | Quarterly | 15 business days after quarter end |

## Reporting requirements – non-ILAS firms

| Data item | Description | Frequency | Submission deadlines |
|---|---|---|---|
| **FSA055:** Systems & Controls Questionnaire | Monitor firms' compliance with our systems and control requirements | Annual | 15 business days after year end |

36 Where branches or UK subsidiaries of foreign firms have been granted a modification, only FSA047 and FSA048 have to be reported on a whole-firm basis, and at most quarterly. The submission deadline in this case is one month.

# List of acronyms

| | |
|---|---|
| BAU | Business as usual |
| BCBS | Basel Committee on Banking Supervision |
| BI | Business Intelligence |
| BIPRU | Prudential Sourcebook for Banks, Building Societies and Investment Firms |
| BSOC | Building Society |
| CBA | Cost Benefit Analysis |
| CEBS | Committee of European Banking Supervisors |
| CFP | Contingency Funding Plans |
| CP | Consultation Papers |
| CRD | Capital Requirements Directive |
| DLG | Defined Liquidity Group |
| DP | Discussion Paper |
| ECB | European Central Bank |
| EEA | European Economic Area |
| EMR | Enhanced Mismatch Report |
| FSA | Financial Services Authority |
| FSCS | Financial Services Compensation Scheme |
| FSMA | Financial Services and Markets Act 2000 |
| FTP | Funds Transfer Pricing |
| FX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GLC | Global Liquidity Concessions |
| ICAAP | Individual Capital Adequacy Assessment Process |
| ICMA | International Capital Market Association |
| IDB | Islamic Development Bank |
| ILAA | Individual Liquidity Adequacy Assessment |
| ILAS | Individual Liquidity Adequacy Standards |
| ILG | Individual Liquidity Guidance |
| ILSA | Individual Liquidity Systems Assessment |

| | |
|---|---|
| IPRU | Interim Prudential Sourcebook |
| ISA | Individual Savings Account |
| ISDA | International Swaps and Derivatives Association |
| LRP | Liquidity Risk Profile |
| NIESR | National Institute of Economic and Social Research |
| NiGEM | National Institute of Economic and Social Reasearch Econometric Model |
| OP | Occasional Paper |
| PS | Policy Statement |
| QMMF | Qualifying Money Market Funds |
| SEP | Supervisory Enhancement Programme |
| SLRP | Supervisory Liquidity Review Process |
| SME | Small and Medium-size Enterprises |
| SYSC | Systems and Controls |

# List of non-confidential respondents

*List of non-confidential responses to CP08/22*

Association of Private Client Investment Managers and Stockbrokers (APCIMS)
Aberdeen Asset Management
Avantage Capita
BP Oil International Limited
BVCA
Bank of America Merrill Lynch
Bank of New York Mellon Corporation
Bank of Tokyo – Mitsubishi UFJ
Barclays Treasury
Bath Building Society
Britannia Building Society
Building Societies Association (BSA)
C Hoare & Co Bank
Cambridge Building Society
Close Brothers Group
Credit Suisse
Danish Financial Supervisory Authority
Danske Bank
Deutsche Bank
Earl Shilton Building Society
Ecology Building Society
Euroclear UK
European Finance House
European Islamic Investment Bank
Futures & Options Association (FOA)
HSBC
Hampshire Trust
Holmesdale Building Society
International Banking Federation (IBF)
ING
Institute of Chartered Accountants in England and Wales (ICAEW)

Institutional Money Market Funds Association (IMMFA)
Investment Management Association (IMA)
Ipswich Building Society
Joint Trade Associations (BBA, ISDA, LIBA)
Kookmin Bank International
Leek United Building Society
Legal & General Investment Management
Lloyds TSB
Loughborough Building Society
Luke Russell (individual)
Manchester Building Society
Market Harborough
Markit Group
Marshall Securities
Mitsubishi UFJ Securities International
Monmouthshire Building Society
Morgan Stanley
N M Rothschild & Sons
National Australia Group Europe
National Counties Building Society
Newbury Building Society
Nottingham Building Society
Penrith Building Society
PricewaterhouseCoopers
Progressive Building Society
Seymour Pierce
Skipton Building Society
Smaller Businesses Practitioner Panel
Société Générale
Stafford Railway Building Society
Standard Chartered Bank
State Street
Sterling International Brokers
Swansea Building Society
Teachers Building Society
The Actuarial Profession
The Association of Corporate Treasurers
The City of London Law Society
The Coventry Building Society
The Fédération Bancaire Française
The Japanese Bankers Association
The Marsden Building Society
The Norinchukin Bank
The Royal Bank of Scotland
The Shepshed Building Society
Thomson Reuters
VTB Capital

Winterflood Securities
Yorkshire Building Society

## *List of non-confidential responses to CP09/13*

Algorithmics
APACS Liquidity Managers Group
Association of Private Client Investment Managers and Stockbrokers (APCIMS)
Association of Foreign Banks (AFB)
Barclays Bank
Building Societies Association (BSA)
Cazenove Capital Management Limited
Clydesdale Bank
Credit Suisse
Deutsche Bank
ED&F Man Commodity Advisers
Furness Building Society
Gulf International Bank
HSBC
Infosys Technologies
Investment Management Association (IMA)
Joint Trade Associations (BBA, ISDA, LIBA)
JWG-IT Group
Legal & General Investment Management
Lloyds TSB
Morgan Stanley
Norinchukin Bank
Nottingham Building Society
Standard Chartered Bank
The Royal Bank of Scotland
Tullett Prebon

We received a response from one party who did not wish to be identified.

## *List of non-confidential responses to CP09/14*

Association of Private Client Investment Managers and Stockbrokers (APCIMS)
Association of Foreign Banks (AFB)
Barclays Bank
BLME
Building Societies Association (BSA)
Credit Suisse
HSBC
Investment Management Association (IMA)
Joint Trade Associations (BBA, ISDA, LIBA)
Legal & General Investment Management
Lloyds TSB
Nottingham Building Society
Scottish Building Society
Société Générale
The Royal Bank of Scotland

We received responses from two parties who did not wish to be identified.

**PUB REF: 001904**

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