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Financial Services Authority

# Strengthening liquidity standards 3:

## Liquidity transitional measures

June 2009





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The Financial Services Authority invite comments on this Consultation Paper. Comments should reach us by 31 July 2009.

Comments may be sent by electronic submission using the form on the FSA's website at ([www.fsa.gov.uk/Pages/Library/Policy/CP/2009/cp09\\_14\\_response.shtml](http://www.fsa.gov.uk/Pages/Library/Policy/CP/2009/cp09_14_response.shtml)).

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# 1 Overview

## Introduction

- 1.1 This Consultation Paper (CP) sets out our proposals for transitional measures which are intended to aid the implementation of our new liquidity regime (on which we consulted through CP08/22<sup>1</sup> and CP09/13<sup>2</sup>). We propose a phased approach, differentiated for each class of firm within the scope of the new liquidity regime. The new liquidity regime will apply to banks, building societies, branches of European Economic Area (EEA) and non-EEA banks and BIPRU investment firms. BIPRU Limited License and Limited Activity investment firms will be subject only to the proposed enhanced systems and controls requirements.
- 1.2 The transitional proposals in this consultation paper create no enduring obligations for firms beyond those implied by the proposals in CP08/22 (on the substance of the new regime) and CP09/13 (on the associated reporting requirements). The specific proposals relating to firms eligible for the simplified ILAS regime set out a gradual pathway for building-up minimum levels of liquidity buffers over several years, as opposed to overnight implementation with the additional costs that such an approach would imply. The transitional provisions allow most firms additional time to make their preparations for the new regime, whilst interim monitoring and supervision arrangements already put in place for systemically important firms, in co-operation with them, mean we will continue to address the areas of largest risk.
- 1.3 In these circumstances, and given our commitment to bring the new regime – inclusive of the transitionals – into effect from the fourth quarter of 2009 we judge that, exceptionally, an eight-week consultation period is justified, compared with the normal minimum of 13 weeks. That should enable us to make final decisions on the new regime, including the transitionals, in the third quarter of 2009. We do not expect the transitional proposals to be contentious.

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1 CP08/22 *Strengthening liquidity standards* (December 2008)

2 CP09/13 *Strengthening liquidity standards 2: Liquidity reporting* (April 2009)

## Strengthening liquidity standards

- 1.4 CP08/22 set out our views on future liquidity regulation within the UK. We will require firms to maintain adequate liquidity resources and manage their liquidity risks. CP08/22 is relevant to all BIPRU firms and UK branches of EEA and non-EEA banks. The presumption in our CP08/22 proposals is that every firm must be self-sufficient for liquidity purposes unless prior permission from us allows otherwise.
- 1.5 In CP09/13 we said that we intend to publish a Policy Statement setting out the finalised liquidity regime and reporting rules together with the transitional arrangements in the third quarter of 2009. This will consider and incorporate, where appropriate, feedback received to CP08/22 and CP09/13. And, as noted in our 2009/10 *Business Plan* and DP09/02<sup>3</sup>, published alongside *The Turner Review* in March 2009, we are planning for the new rules and guidance on liquidity risk management, including transitional provisions, to take effect from the fourth quarter of 2009.
- 1.6 In developing the transitional proposals we need to be aware of the potential impact on firms and the need to give them time to prepare for the complete package of liquidity reforms. Some of the feedback to CP08/22 has raised issues relevant to transitional matters, for example noting the differences between the classes of firm within the scope of the new liquidity regime, and this has informed the development of our proposals contained in this CP.

## Our proposal

### Phased implementation

- 1.7 We propose a simple phased implementation plan for various elements of the new regime (systems and controls requirements, quantitative requirements, and reporting), which will be proportionate and differentiated by class of firm. The details of our proposals, by class of firm, are set out in Annexes to this CP.

### Systems and controls requirements

- 1.8 CP08/22 describes the proposed systems and controls requirements (BIPRU 12.3 and 12.4) and notes that they are designed to help secure a substantial improvement in liquidity risk management. The requirements are relevant to all firms within the scope of the new liquidity regime and, given the fundamental nature of the requirements, we do not intend to provide a transitional measure and consider they should apply to all firms within the scope of the new liquidity regime from the fourth quarter of 2009.
- 1.9 Exceptionally, we propose that UK branches of overseas banks that currently benefit from a Global Liquidity Concession (GLC) will not be subject to the BIPRU 12 systems and controls requirements until September 2010. Meanwhile, we shall maintain

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3 DP09/02: *A regulatory response to the global banking crisis* (March 2009)

appropriate oversight of branches' liquidity positions in liaison with home supervisors. In the run-up to September 2010 we will further illuminate the choice branches have between self-sufficiency and applying for waivers/modifications with conditions, thereby enabling them to make an informed choice.

## **Quantitative requirements**

- 1.10 CP08/22 describes a range of quantitative requirements:
- Individual Liquidity Adequacy Standards (ILAS) – a quantitative framework within which the FSA will issue Individual Liquidity Guidance (ILG) to those firms covered by the arrangements;
  - for simpler firms standardised options are available where specified criteria are met; and
  - liquid assets – proposed standards for quality and quantity of liquid assets.
- 1.11 We propose that we would provide ILAS firms within the new liquidity regime with transitional measures covering their move from the current regime to the new. Annexes 1 to 9 to this CP set out our proposal by class of firm. We propose that the BIPRU 12 quantitative requirements for ILAS firms should be deferred for a period of time (the transitional period varies by class of firm). At the end of the transitional period, the BIPRU 12 quantitative requirements (including self-sufficiency) will apply. Non-ILAS firms (limited licence and limited activity BIRPU investment firms) fall outside the scope of the ILAS requirements.
- 1.12 Quantitative constraints on individual firms' liquidity positions will be set within ILG, with the FSA taking a view on the overall pace at which liquidity positions can sensibly be strengthened, taking into account – as foreshadowed in CP09/13 – the need to avoid unnecessary constraints on bank lending as the economy recovers. Similar considerations apply for progressive implementation of the simplified regime for building societies and banks. As outlined in CP08/22, firms eligible for this regime would for the long term need to be able to meet their needs from their liquidity buffers for a defined period. Here we propose that the minimum liquidity buffer to be held should rise gradually from 30% (year 1), 50% (year 2), 70% (year 3) and 100% (from year 4) of the final figure.
- 1.13 We retain the ability to issue guidance to a firm as part of our normal supervisory engagement with firms. So, where appropriate, we will be able to issue ILG to particular firms in advance of the BIPRU 12 quantitative requirements coming into effect.

## **Reporting**

- 1.14 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009. The switch-on of regulatory reporting requirements needs to reflect the transitional arrangements provided in respect of the substantive requirements of the new regime.

## **Self-sufficiency and waivers/modifications of the requirements**

- 1.15 The effect of our proposals in this CP is to delay implementation of our proposed self-sufficiency requirements from between six months to one year for different classes of firms. This will give firms greater time to understand the impact of self-sufficiency on their business and to weigh up the costs and benefits of self-sufficiency relative to seeking a Financial Services and Markets Act (FSMA) waiver, with conditions, from the requirement.

## **The economic cycle and the wider economy**

- 1.16 Our proposals for new liquidity regulations are being implemented at a time of both economic uncertainty and significant fiscal and monetary support from the Government and through the Bank of England (the Bank). Introduction of the tighter liquidity regulations has the potential to dampen or undermine economic recovery and so needs to be managed carefully, in conjunction with other Tripartite members, taking account of its possible macroeconomic consequences.

## **Supervisory approach through to economic recovery**

- 1.17 In recognition of the economic uncertainty, our starting point for setting ILG will be first to set guidance for individual firms reflecting the current economic position and the general liquidity position of the banking system at present. This ILG can be considered a ‘low level backstop’ and will not represent our view on what would be appropriate in any future economic downturn. Once firms have been provided with ‘low level backstop’ ILG, we intend to begin ILAS assessments and, as part of this assessment, we would agree with each firm the level of liquidity necessary in the long term. An exception to this general approach is our simplified ILAS framework, where we are proposing quantified transitional requirements.

## **Who should read this paper?**

- 1.18 This paper directly affects all UK-regulated deposit-takers (banks and building societies), including branches of both EEA and other overseas banks operating in the UK. It is also relevant to non-bank securities firms and small investment firms (including limited licence/limited activity BIPRU investment firms).

## **Consumers**

- 1.19 This paper relates to liquidity policy, which is a regulatory tool we use to reduce (but not eliminate) the risk of firms failing. It also reduces the impact of firm failures if they occur. This helps us meet our statutory objectives of maintaining market confidence and securing the appropriate degree of protection for consumers. This CP is one component in a suite of papers discussing liquidity policy and proposals. Together the proposals contained in the papers will lead to changes and these may affect consumers indirectly. Although we do not think this paper will be of direct interest to individual consumers, we think it may be of interest to organisations that represent, or comment upon, the interests of banking consumers.



# 2 Implementation of the FSA's new liquidity regime

## Introduction

- 2.1 This Chapter sets out our proposals for transitional measures which are intended to aid the implementation of our new liquidity regime (consulted on in CP08/22). We propose a phased approach, differentiated for each class of firm within the scope of the new liquidity regime.

## Strengthening liquidity standards

- 2.2 CP08/22 set out our views on future liquidity regulation within the UK. We will require firms to maintain adequate liquidity resources and manage their liquidity risks. Liquidity resources must be adequate at all times, both as to amount and quality, to ensure that firms can continue to meet their liabilities as they fall due, both in normal and stressed times.
- 2.3 CP08/22 is relevant to all BIPRU firms and UK branches of European Economic Area (EEA) and non-EEA banks. The scope of the policy consulted upon through CP08/22 is similar to the current regime, with the exception that quantitative standards for liquidity would be broadened under the policy proposal, to cover full-scope BIPRU investment firms.
- 2.4 The presumptive position in our CP08/22 proposals is that every firm must be self-sufficient for liquidity purposes unless a waiver, with conditions, has been granted. This means a firm is prohibited from relying on its parent or other related entity for the purpose of meeting the overall liquidity adequacy rule. In the case of a UK branch, the whole-bank must ensure that its UK branch has adequate liquidity resources in the UK and under the day-to-day control of the senior management of the UK branch.
- 2.5 We welcome the feedback we received in response to CP08/22. A number of themes and comments were of interest as we were developing the transitional proposals set out in this CP. This CP does not contain feedback on the CP08/22 proposals.

## **Timeline and other considerations**

### **Our timeline**

- 2.6 CP09/13 explained that we intend to publish a Policy Statement in the third quarter of 2009, setting out the finalised liquidity regime and reporting rules together with the transitional arrangements. This will consider and incorporate, where appropriate, feedback received to CP08/22 and CP09/13. And, as noted in our 2009/10 *Business Plan* and DP09/02, published alongside The Turner Review in March 2009, we are planning for the new rules and guidance on liquidity risk management, including transitional provisions, to take effect from the fourth quarter of 2009.

### **Preparing for the new regime**

- 2.7 In developing the transitional proposals we need to be aware of the potential impact on firms and the need to give them time to consider the complete package of measures for the liquidity regime.
- 2.8 Some of the feedback to CP08/22 raised issues relevant to transitional matters, for example noting the differences between the classes of firm within the scope of the new liquidity regime. And it highlighted that some firms currently have detailed liquidity requirements and others do not. Other respondents' comments related to the need to have adequate time to review the finalised material, design an appropriate strategy, take action to implement their plan (including business systems and IS development) and to apply for a modification or waiver if appropriate.
- 2.9 Within the FSA, we are preparing for the new liquidity regime. For example, we will need to develop appropriate supervisory programmes, and be ready to deal with the work flows (e.g. issuance of ILG, determination of waiver applications) that will arise.

## **Our proposal**

### **Phased implementation**

- 2.10 CP08/22 indicated 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, we have revised our position.
- 2.11 We propose a simple phased implementation plan for various elements of the new regime (systems and controls requirements, quantitative requirements, and reporting), which will be proportionate and differentiated by class of firm.
- 2.12 The proposals in this CP have been provided on the basis that the new liquidity regime begins from the fourth quarter of 2009. The details of our proposals, by class of firm, are set out in Annexes to this CP.

## **Systems and controls requirements**

- 2.13 CP08/22 describes the proposed systems and controls requirements (BIPRU 12.3 and 12.4) and notes that they are designed to help secure a substantial improvement in liquidity risk management. We intend to achieve this through introducing enhanced systems and controls requirements together with a formal structured supervisory review of compliance with our handbook. The systems and controls requirements are relevant to all firms within the scope of the new liquidity regime.
- 2.14 CP08/22 indicated that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. Given the fundamental nature of those requirements, we do not intend to provide a transitional measure. We consider they should apply to all firms within the scope of the new liquidity regime from the fourth quarter of 2009.
- 2.15 Exceptionally, we propose that UK branches of overseas banks with Global Liquidity Concession (GLC) in place as at 28 May 2009 will not be subject to the BIPRU 12 systems and controls requirements until September 2010. Meanwhile, we shall maintain appropriate oversight of branches' liquidity positions in liaison with home supervisors. In the run-up to September 2010 we will further illuminate the choice branches have between self-sufficiency and applying for waivers/modifications with conditions, thereby enabling them to make an informed choice.

## **Quantitative requirements**

- 2.16 CP08/22 describes a range of quantitative requirements:
- Individual Liquidity Adequacy Standards (ILAS) – a quantitative framework within which the FSA will issue Individual Liquidity Guidance (ILG) to those firms covered by the arrangements;
  - for simpler firms standardised options are available where specified criteria are met; and
  - liquid assets – proposed standards for quality and quantity of liquid assets.
- 2.17 We propose that those firms which will be ILAS firms within the new liquidity regime should be provided with transitional measures as they move from their current regime to the new liquidity regime. The Annexes to this CP set out our proposal by class of firm.
- 2.18 We propose that the BIPRU 12 quantitative requirements for ILAS firms should be deferred for a period of time. The proposed transitional period varies according to the class of firm, based on judgements about risks posed. During the transitional period firms will need to comply with their current prudential requirements. The proposed BIPRU 12 overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply. Following the transitional period, the BIPRU 12 quantitative requirements (including self-sufficiency) will apply.

- 2.19 Non-ILAS firms (limited licence and limited activity BIPRU investment firms) fall outside the scope of the ILAS requirements.
- 2.20 Quantitative constraints on individual firms' liquidity positions will be set within Individual Liquidity Guidance (ILG), with the FSA taking a view on the overall pace at which liquidity positions can sensibly be strengthened, taking into account – as foreshadowed in CP09/13<sup>4</sup> – the need to avoid unnecessary constraints on bank lending as the economy recovers. Similar considerations apply for progressive implementation of the simplified regime for building societies and banks. As outlined in CP08/22, firms eligible for this regime would for the long term need to be able to meet their needs from their liquidity buffers for a defined period. Here we propose a timeline for the gradual increase in these firms' minimum liquidity buffer from 30% (year 1), 50% (year 2), 70% (year 3) and 100% (from year 4) of the final figure.
- 2.21 We retain the ability to issue guidance to a firm as part of our normal supervisory engagement with firms. So, where appropriate, we will be able to issue ILG to particular firms in advance of the BIPRU 12 quantitative requirements coming into effect.

## **Reporting**

- 2.22 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009.
- 2.23 The switch-on of regulatory reporting requirements needs to reflect the transitional arrangements provided in respect of the requirements of the new regime. So we propose that the new quantitative reporting obligations – as outlined in CP09/13 – will begin as each class of firms becomes subject to the new regime.

Q1: Do you agree with our proposal to provide transitional arrangements on a phased basis, differentiated by class of firm and type of requirement? If not, how could we amend it?

## **Self-sufficiency and waivers/modifications of the requirements**

- 2.24 The effect of our proposals in this CP is to defer implementation of our proposed self-sufficiency requirements by between six months to one year for different classes of firms. This will give firms greater time to understand the impact of self-sufficiency on their business and to weigh up the costs and benefits of self-sufficiency relative to seeking a waiver, with conditions, from these rules.
- 2.25 We intend to agree with each firm a 'window of time' to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firms becomes subject to the BIPRU 12 quantitative requirements

Q2: Do you agree with our proposals to defer implementation of our proposed self-sufficiency requirements for different classes of firms and to agree with each firm a 'window of time' to apply for a waiver?

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4 CP09/13 *Strengthening liquidity standards 2: Liquidity reporting* (April 2009)

Q3: How long do you consider you would need after the waiver decision has been made to prepare for compliance with the new regime?

## **The economic cycle and the wider economy**

- 2.26 Our proposals for new liquidity regulations are being implemented at a time of both economic uncertainty and unprecedented fiscal and monetary support by the Tripartite Authorities. We recognise that tighter liquidity regulations have the potential to dampen or undermine the efforts to return the economy back to health, and so increased liquidity standards must be managed carefully, in conjunction with other Tripartite members, taking into account possible macroeconomic consequences.
- 2.27 Given the uncertainties for making firms' liquidity position fully robust it is not possible to set a fixed timeline for non-simplified ILAS firms. As outlined in CP08/22, we are considering the merits and mechanics of publishing an annual liquidity risk review of progress towards establishing a more robust consolidated position.

## **Supervisory approach through to economic recovery**

- 2.28 In recognition of the economic uncertainty, our starting point for setting ILG will be to first set guidance based on the current economic position and the general liquidity position of the banking system at present.
- 2.29 This ILG can be considered a 'low level backstop'; the minimum level we judge acceptable in present conditions. Such 'low level backstop' guidance would help to provide a floor from which to strengthen liquidity over time. This guidance will likely take into account:
- the firm's structural liquidity profile;
  - the amount and quality of liquid assets; and
  - wider market conditions.
- 2.30 Setting 'low level backstop' ILG as a starting point reflects the financial services system's current liquidity position, and so does not represent our view on what would be appropriate in any future economic downturn.
- 2.31 Once firms have been provided with 'low level backstop' ILG, we intend to begin ILAS assessments, as envisaged in CP08/22. As part of this we would agree with each firm the level of liquidity necessary in the long term and a number of interim steps to increase the level of liquidity required. We expect that path could stretch over several years.

- 2.32 Consistently with this general approach we are proposing quantified transitional requirements for the simplified ILAS framework. The pathway we propose takes account of our assessment that a large number of firms eligible for the simplified approach already comply with the standard proposed, and where they do not, the costs of moving into compliance over four years would be relatively low.
- 2.33 We regard the proposed 'low level backstop' ILG approach described above as an appropriate approach. However, if as a result of supervisory activity we identify firms whose liquidity profile is an outlier compared to its peers and we assess it as potentially posing a risk to our statutory objectives, would set significantly higher liquidity requirements for those firms, either through ILG or through varying their permission.

Q4: What are your views on our proposed supervisory approach through to economic recovery?

# 3 Cost-benefit analysis

## Background

- 3.1 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.
- 3.2 The purpose of a CBA is to assess, in quantitative terms where possible and in qualitative terms where not, the incremental economic 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.
- 3.3 This CBA considers the transitional proposal for the simplified ILAS regime and is structured as follows:
  - identification of the banks and building societies eligible for the simplified ILAS regime;
  - description of the proposed quantitative transitional path for these firms;
  - costs of the transitional regime to firms, the FSA and the wider economy; and
  - benefits of the transitional regime.
- 3.4 The CBA assesses the incremental economic costs and benefits of implementing our transitional proposals to firms eligible for the simplified ILAS regime (BIPRU 12.6) relative to the position that would arise if we did not (i.e. the baseline). It comprises analysis of data submitted by a sample of firms, and input from policy, supervisory and risk management experts within the FSA. Transitional proposals for non-simplified ILAS and non-ILAS firms are not covered in this CBA 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. The CBA for the new overall enhanced liquidity regime was carried out in CP08/22.
- 3.5 This work builds on previous analyses conducted for CP08/22 and CP09/13. We are grateful to firms that are members of the external standing group on liquidity that have informed our work on the CBA.

## **Determination of the scope**

- 3.6 The transitional proposal considered in this CBA applies to UK incorporated banks and building societies eligible for the simplified ILAS regime (BIPRU 12.6). Under BIPRU 12.6.6 a firm may only operate the simplified ILAS approach if:
- (1) a majority of that firm's total assets are accounted for by loans secured on residential property;
  - (2) its assets and liabilities are denominated exclusively in sterling; and
  - (3) no less than 70% of its total liabilities are accounted for by retail deposits.
- 3.7 We believe that Building Societies that use Matched or Administered treasury risk management functions (as defined in IPRU BSOC) would be eligible for the liquidity regime. We have also identified one bank that would potentially be eligible. Accordingly, we estimate that the scope of the simplified regime as defined in CP08/22 would be 27 firms. As of December 2008, these firms together held £6.5 billion of assets on their balance sheets.

## **Simplified ILAS regime characteristics**

- 3.8 We propose to replace the current liquidity regimes with the framework proposed in CP 08/22. The process for ILAS firms results in the issuance of Individual Liquidity Guidance (ILG) for firms. Firms will be required to meet an increasing proportion of the requirements over time until they are expected to comply with ILG.
- 3.9 We are proposing a similar approach be adopted for firms that are eligible for, and opt-into the simplified ILAS regime. The standardised buffer ratio for simpler firms can be considered as ILG for simpler firms. This CBA focuses on the costs to building societies relating to those generated by moving from IPRU BSOC to the simplified ILAS regime. We recognise the challenges for firms that must meet our tougher quantitative liquidity risk management standards, particularly given the challenging economic conditions at present. We therefore propose that firms eligible for the simplified ILAS regime will meet the quantitative requirements over a four year period, meeting 30% of the requirement in year 1, 50% in year 2, 70% in year 3 and 100% in year 4.

## **Setting the baseline**

- 3.10 We identified that the 26 building societies and the bank eligible for the simplified ILAS regime hold together approximately £6.5 billion of assets. We have limited data available on the liquid assets held by these firms. To estimate these firms' average holding of short-term Sterling treasury bills, we took a sample of seven larger building societies which are currently submitting LRP. Although these firms are larger in size (and would probably not be eligible for the simplified ILAS regime), information on their short-term Sterling treasury bills is the best proxy available for the population



of 27 firms likely to be affected by the simplified ILAS regime. We took their holdings of gilts with a contractual flow of less than three months as an estimate of their holding of short-term Sterling treasury bills. On average, the firms in the sample hold 3% of their assets in the form of gilts with a contractual flow of less than three months.

Q5: Do you agree with the approach to estimate current short-term Sterling treasury bills held by firms?

Q6: Do you consider the estimated ratio of 3% reasonable?

## **Identification of costs to firms and the wider economy**

3.11 The implementation of this transitional liquidity regime will lead to incremental costs for firms affected by the proposal. These can include:

- costs arising from change in administrative and reporting activities;
- costs arising from new quantitative liquidity requirements;
- impact on UK competitiveness;
- cost to the wider economy; and
- cost to the FSA.

3.12 In the following discussion, we focus on the incremental costs to affected firms. For the purpose of this study, estimating incremental costs involves a comparison of the situation faced by firms complying with the transitional liquidity regime, and the hypothetical situation in which firms continue to make their business choices about liquidity under our existing standards for liquidity risk management. We define this as the ‘baseline scenario’.

### **Costs arising from change in administrative and reporting activities**

3.13 No firms eligible for the simplified ILAS regime are currently submitting the LRP. However, under the transitional proposal for the simplified ILAS regime there will be no transitional reporting costs attributable to LRP reporting. The LRP data item is currently being used for firms as part of the ad hoc crisis supervision/monitoring, but it is not required under CP08/22.

3.14 We are also consulting to assess whether firms eligible for the simplified ILAS regime face significant transaction costs when accessing the government bond market.

Q7: Do you agree that the transitional regime as such will not impose significant additional administrative and reporting cost on simplified banks and building societies

Q8: Do you believe that simplified banks and building societies incur additional transaction cost when accessing the government bond market?

## Impact on UK Competitiveness

- 3.15 FSMA requires us to consider the international character of financial services and markets and the desirability of maintaining the competitive position of the UK. In theory, like the overall new liquidity regime, the transitional proposal for simplified ILAS regime could operate to the detriment of the UK's competitive position relative to that of other countries for the same reasons discussed in CP 08/22. However, given the reduced number of firms covered by these transitionals, the simplified nature of their business, and the progressive aspect of the proposals, we do not expect significant impact on the competitiveness of the UK.

### *Costs to the wider economy*

- 3.16 We refer to CP08/22 for the discussion of the costs of an enhanced liquidity regime to the wider economy. However, for the reasons outlined above, we do not expect a significant impact to the economy.

### *Costs to the FSA*

- 3.17 We do not expect to incur significant additional costs as a result of the transitional proposals.

### *Estimates of costs due to holding increased liquid assets*

- 3.18 To assess the cost of holding increased liquid assets for firms that are eligible for the simplified regime, we estimated their current positions against the requirements for the simplified regime, that is, the extent to which they currently satisfy the simplified ILAS equation:

Short-term Sterling treasury bills	>	Peak cumulative contractual net outflow over 90 business days <sup>5</sup>	+	5% of all retail deposits due within 90 business days	+	25% of un-drawn commitments
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- 3.19 As detailed above, we have used gilts with a contractual flow of less than three months as a proxy for short-term Sterling treasury bills. Where we identified a shortfall, we calculated the additional liquid assets that each firm in the sample would need to hold, as a proportion their total assets. We understand this approach has limitations, as it assumes that firms can only hold assets denominated in sterling to comply with the new liquidity requirements. However, it facilitates the analysis and is consistent with the analysis carried out in CP08/22.
- 3.20 We calculate that on average, firms in the sample for which we identified a shortfall would need to hold an extra 1.75% of liquid assets. Throughout the analysis, the total amount of assets held by firms is kept constant. Assuming the same spread of 150bps between the yield on government bonds and other assets as in CP08/22, we estimate incremental costs to firms eligible for simplified ILAS regime of approximately £2 million. This is equivalent to an average cost of approximately £70,000 per firm.

5 This excludes retail deposits and inflows from treasury bills.

Q9: Do you agree with the costing methodology for the simplified regime transitional arrangements?

Q10: Do you agree with the cost estimates for the simplified regime transitional arrangements?

3.21 As described in this CP, the transitional regime would run for several years. Estimates of the cumulative and year-on-year costs<sup>6</sup> are given below:

Year of regime	Requirement	Year-on-year average additional cost	Cumulative average cost per firm
1	Firms must meet at least 30% of buffer requirement	£19,000	<b>£19,000</b>
2	Firms must meet at least 50% of buffer requirement	£13,000	<b>£32,000</b>
3	Firms must meet at least 70% of buffer requirement	£12,000	<b>£44,000</b>
4	Firms must meet full buffer requirement	£19,000	<b>£63,000</b>

3.22 For all affected firms:

Year of regime	Requirement	Year-on-year additional cost to firms	Cumulative cost to firms
1	Firms must meet at least 30% of buffer requirement	£513,000	<b>£513,000</b>
2	Firms must meet at least 50% of buffer requirement	£342,000	<b>£855,000</b>
3	Firms must meet at least 70% of buffer requirement	£342,000	<b>£1,197,000</b>
4	Firms must meet full buffer requirement	£513,000	<b>£1,710,000</b>

## Benefits

3.23 The proposed transitional arrangements aim to move firms from their current liquidity-risk requirements to the one described in CP08/22. The benefits of the regime can be found in Chapter nine of CP08/22. The benefits of the reporting requirements are outlined in Chapter seven of CP09/13.

3.24 The benefits of the transitional arrangements for the simplified ILAS regime are a result of a number of regime features, including:

- giving time to firms to adjust their business model to new liquidity requirements in the current difficult economic conditions;
- a reduction in probability of firms' failure as standards are strengthened;
- a reduction of likelihood and expected costs of systemic instability propagating from firms as standards are strengthened.

<sup>6</sup> Estimates are rounded to the nearest thousand.

These benefits are expected to crystallise in a progressive manner given the nature of the regime. Details of these potential benefits are given below.

### **Progressive adjustment of firms business models**

- 3.25 We recognise the challenges for firms that must meet our tougher quantitative liquidity risk management standards, particularly given the challenging economic conditions at present. Because of this, we propose that firms will meet the quantitative requirements over a four year period at a pace that is both within our risk appetite, and achievable for firms.
- 3.26 The benefit of this approach are twofold:
- the regime would not be unduly burdensome for firms – the requirements would not adversely affect firms’ ability to carry out business-as-usual activities and manage other risks effectively; and
  - would limit the impact on the market – a key component of the regime is the requirement that firms hold a larger, higher quality buffer of liquid assets. Phasing-in this requirement would limit the impact of the regime on the yields and prices of bonds that are eligible for the buffer.

### **Reduction in probability of firm’s failure and in expected costs of systemic crises**

- 3.27 Firms eligible for the simplified ILAS regime have a simpler business model, do not have foreign exchange exposure and have limited reliance on wholesale funding. However, as explained in CP08/22, these firms also tend to have simpler risk management functions, meaning that they need to have more conservative liquidity positions to ensure that if they run into liquidity difficulties, the authorities have time to intervene if appropriate. The transitional proposal for simplified ILAS regime would help firms to eventually meet these more conservative requirements.
- 3.28 CP08/22 details some of the mechanisms through which systemic banking crises can arise and how the failure of financial firms can cause a ripple of distress and defaults across the financial system. The fear among market participants that some banks may become insolvent will tend to induce strong preferences for safe assets and lending at short maturities. Such preferences will depress investment and economic activity in general. In particular, a banking crisis affecting firms eligible for the simplified ILAS regime is likely to reduce their mortgage lending and increase its price, as firms would find it more difficult to fund that core activity. Such a crisis can also evolve in a more general banking crisis and trigger more costly failures of more complex firms.

Q11: Do you agree that the proposals will result in the benefits described in this section?

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

## Introduction

- 4.1 This Chapter sets out our views on how the proposed liquidity transitional arrangements are compatible with our objectives and the principles of good regulation.

## Compatibility with our statutory objectives

- 4.2 Our transitional proposals, as set out in this Consultation Paper (CP), aim to meet our statutory objectives. The most pertinent are our market confidence and consumer protection objectives.

### Market confidence

- 4.3 We aim to maintain confidence in the UK financial system. Our transitional arrangements seek to reduce the risk of market disruption arising from the financial failure of authorised firms, and the potentially destabilising impact of firms needing to comply with our requirements at a pace that is unrealistic. However, a balance must be struck between improving standards from the outset, and sustainable implementation of the requirements. We propose to do this by:

- requiring all BIPRU firms to meet the systems and controls requirements from the regime's 'go-live' date; and
- moving firms to full compliance with quantitative standards using a risk-based transitional approach over a number of years;

### Consumer Protection

- 4.4 The proposals in this CP seek to facilitate firms' compliance with the liquidity requirements in CP08/22. These standards align closely with the risk attributable to firms' business models, and the strength of their systems and controls. We expect that moving firms to a position of significantly enhanced liquidity standards will reduce the probability and impact of firm failure. This should provide a positive outcome for consumer protection.

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

- 4.5 Under section 2 (3) of the Financial Services and Markets Act 2000 (FSMA), we must consider the specific matters set out below, when carrying out our general functions.

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

- 4.6 Our approach to delivering our liquidity policy proposals contains several important elements designed to ensure that we use our resources efficiently. For the transitional arrangements. These include:
- acknowledging the likely variation in ability of firms to meet the new standards; and
  - using a risk-based, proportionate approach to transitioning firms – the larger, more systemic firms will be transitioned first.

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

- 4.7 We have discussed our approach to implementing our risk appetite by encouraging a theoretical debate about the appropriateness and feasibility of our transitional arrangements. We believe that the proposals strike an appropriate balance between delivering much-needed improvements to liquidity risk management standards, and giving firms achievable interim targets to ensure they meet the full requirements at a future date.

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

- 4.8 We have undertaken a cost-benefit analysis (CBA) to help inform this consultation. The CBA focussed on the costs and benefits for firms that opt-into the simplified regime. This is set out in Chapter 3.
- 4.9 We acknowledge that some impacts of the new regime may have been overlooked in the CBA, and that differences of opinion may arise over the nature and extent of some of the impacts discussed. We therefore welcome the input of respondents in helping us identify such areas.

### **Desirability of facilitating innovation in connection with regulated activities**

- 4.10 By aligning liquidity requirements more closely with those stipulated in CP08/22, we are promoting the development of strong risk management techniques, 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**

- 4.11 Our new 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.
- 4.12 We do not envisage that the transitional proposals outlined in this CP would have a material adverse impact on the competitive position of the UK.

## **Desirability of facilitating competition**

- 4.13 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.

## **Most appropriate way for us to meet our regulatory objectives**

- 4.14 We must set out why we think our standards are the most appropriate way to meet our obligations. Our proposals are robust; many institutions will have to reshape significantly their business models over the next few years. This CP has focused on the policy choices available to us and our reasons for them. Chapter 1 sets out our overall policy stance.

Q12: Do you agree that our proposed liquidity regime is compatible with our statutory objectives and principles of good regulation?

# Transitional measures for UK incorporated banks currently using the Sterling Stock Liquidity approach

## Introduction

- A1.1 This Annex describes our proposals for liquidity transitional measures to be provided to UK incorporated banks that currently have FSA's agreement to use the Sterling Stock Liquidity approach provided by IPRU Bank Chapter LS (sterling stock banks). In the new liquidity regime, these firms will be ILAS firms (BIPRU 12.5). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A1.2 As described in Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements, together with formal structured supervisory review of compliance with our Handbook.
- A1.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. Sterling stock banks will continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q13: Do you agree with the proposed approach for systems and controls requirements?



## **Quantitative requirements**

- A1.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.
- A1.5 We propose that the BIPRU 12 quantitative requirements for sterling stock banks should be deferred until April 2010. During the transitional period (fourth quarter of 2009 to end March 2010) firms will continue to refer to IPRU Bank Chapter LS for their quantitative requirements. The overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period to end March 2010. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply during the transitional period. From April 2010, the BIPRU 12 quantitative requirements (including self-sufficiency) will apply to these firms.
- A1.6 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at April 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q14: Do you agree with the proposed approach for quantitative requirements?

## **Supervisory approach**

- A1.7 We intend to provide ‘low level backstop’ ILG to sterling stock banks in the fourth quarter of 2009. This guidance will take effect in the first quarter of 2010. We do not intend to introduce a wholesale tightening of liquidity requirements at that time. Instead, we propose that we will, on a case-by-case basis, seek a strengthening of firms’ liquidity over a number of years, taking note of the economic context. We will remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q15: Do you agree with the proposed supervisory approach?

## **Reporting requirements**

- A1.8 CP09/13 sets out our proposals for a new liquidity reporting regime. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the BIPRU 12 quantitative requirements. Therefore, sterling stock banks will continue to report using their current regulatory reporting arrangements until end March 2010. From April 2010 these firms will report using the new regulatory reporting regime.

Q16: Do you agree with the proposed approach for reporting requirements?

# Transitional measures for UK incorporated banks currently using the Mismatch Liquidity approach

## Introduction

- A2.1 This Annex describes our proposals for liquidity transitional measures to be provided to UK incorporated banks that currently apply the Mismatch Liquidity approach provided by IPRU Bank Chapter LM<sup>11</sup> (mismatch banks). This Chapter assumes that the bank will be an ILAS firm (BIPRU12.5) and has not selected simplified ILAS (BIPRU 12.6). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A2.2 As described in Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements together with formal structured supervisory review of compliance with our Handbook.
- A2.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. We propose that mismatch banks will continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q17: Do you agree with the proposed approach for systems and controls requirements?

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11 IPRU Bank- Mismatch Liquidity (LM).

## **Quantitative requirements**

- A2.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.
- A2.5 We propose that the BIPRU 12 quantitative requirements for mismatch banks will be deferred until at least June 2010. We are considering the appropriate schedule for our issuance of ILG to mismatch banks and how to determine the order in which we assess mismatch banks for the purpose of issuing ILG. We would let mismatch banks know the timeline.
- A2.6 Assuming the transitional period is from the fourth quarter of 2009 to end-May 2010, firms will continue to refer to their own mismatch guidelines (including behavioural adjustments) when calculating the requirement under IPRU Bank Chapter LM. The BIPRU12 overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period until end May 2010. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply during the transitional period. From June 2010 the BIPRU 12 quantitative requirements (including self-sufficiency) will apply in full to these firms.
- A2.7 If we do not issue ILG to a mismatch bank, it will continue to refer to its own mismatch guidelines in combination with GENPRU 1.2.26R until it is issued with ILG (i.e. the self-sufficiency requirement would not apply during the extended transitional period). Once we issue ILG to the firm, the BIPRU 12 quantitative requirements including self-sufficiency would apply to the firm.
- A2.8 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at the date when the BIPRU 12 quantitative requirements will apply to the firm. The earliest anticipated date when BIPRU 12 quantitative requirements will apply to a mismatch bank is June 2010. We intend to agree with each firm a 'window of time' during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q18: Do you agree with the proposed approach for quantitative requirements?

## **Supervisory approach**

- A2.9 The earliest date by which we intend to provide 'low level backstop' ILG to mismatch banks and for it to take effect is June 2010. We do not intend to introduce a wholesale tightening of liquidity requirements at that time. Instead we propose that we will, on a case-by-case basis, seek a strengthening of firms' liquidity over a number of years, taking note of the economic context. We will remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

A2.10 We are considering the appropriate schedule for our issuance of ILG to mismatch banks and how to determine the order in which we assess mismatch banks for the purpose of issuing ILG. We would let mismatch banks know the timeline.

Q19: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

A2.11 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009.

A2.12 The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So mismatch banks will continue to report using their current regulatory reporting arrangements during the transitional period from the fourth quarter of 2009 until issued with ILG (this could potentially be beyond June 2010). Once a mismatch bank has been issued with ILG the BIPRU 12 quantitative requirements will apply to the firm and it will report using the new regulatory reporting regime.

Q20: Do you agree with the proposed approach?

# Transitional measures for UK incorporated banks that select simplified ILAS

## Introduction

- A3.1 This Annex describes our proposals for liquidity transitional measures to be provided to UK incorporated banks that select the simplified ILAS regime (BIPRU 12.6) (simplified banks). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A3.2 As described in Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements together with formal structured supervisory review of compliance with our Handbook.
- A3.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. Simplified banks will continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q21: Do you agree with the proposed approach for systems and controls requirements?

### Quantitative requirements

- A3.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.

- A3.5 We propose that the BIPRU 12 quantitative requirements for simplified banks will be deferred until June 2010. Our transitional proposal assumes that the firms currently apply IPRU Bank Chapter LM and will select BIPRU 12 simplified ILAS in the new liquidity regime.
- A3.6 During the transitional period from the fourth quarter of 2009 until end May 2010 firms will continue to refer to their own mismatch guidelines (including behavioural adjustments) for the purposes of calculating the requirement under IPRU Bank Chapter LM. The BIPRU12 overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period until end May 2010. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply during the transitional period.
- A3.7 From June 2010 the BIPRU 12 quantitative requirements (including self-sufficiency) will apply to these firms. However, rather than requiring the firms to hold the full liquid buffer required by BIPRU 12.6 from June 2010, the firms will progress towards the full requirement over a period of three years. A transitional rule will be provided that will require simplified banks to maintain the higher of the amount that would be required by IPRU Bank Chapter LM and the amount of the liquidity required by applying a sliding scalar to the requirement in BIPRU 12.6.7 R. We propose 30% of the new requirement in year 1(from June 2010); 50% in year 2; 70% in year 3, and 100% in year 4. Firms would continue to refer to their own mismatch guidelines (including behavioural adjustments) when calculating the requirement under IPRU Bank Chapter LM.
- A3.8 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at June 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q22: Do you agree with the proposed approach for quantitative requirements?

### **Supervisory approach**

- A3.9 We do not plan to provide ILG to simplified banks. We will remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q23: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

- A3.10 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So simplified banks will continue to report using their current regulatory reporting arrangements until end May 2010. From June 2010 these firms will report using the new regulatory reporting regime.

Q24: Do you agree with the proposed approach for reporting requirements?

# Transitional measures for building societies not within the simplified ILAS regime

## Introduction

- A4.1 This Annex describes our proposals for liquidity transitionals to be provided building societies that will be within the BIPRU 12.5 ILAS regime (non-simplified building societies). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A4.2 As described in Chapter 3 of CP08/22, the provisions in BIPRU 12.3 and 12.4 of our Handbook contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements, together with formal structured supervisory review of compliance with our Handbook.
- A4.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. We propose that non-simplified building societies will continue to apply to comply with the systems and controls requirements set out in SYSC II until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q25: Do you agree with the proposed approach  
for systems and controls requirements?

### Quantitative requirements

- A4.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.

- A4.5 We propose that the BIPRU 12 quantitative requirements for non-simplified banks and building societies should be deferred until April 2010. During the transitional period (fourth quarter of 2009 to end March 2010) firms will need to continue to comply with IPRU BSOC Chapter 5. The overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period. However, the financial adequacy rule (GENPRU 1.2.26R) will apply during the transitional period to end March. From April 2010, the BIPRU 12 quantitative requirements (including self-sufficiency) will apply to these firms.
- A4.6 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at April 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q26: Do you agree with the proposed approach for quantitative requirements?

### **Supervisory approach**

- A4.7 We intend to provide ‘low level backstop’ ILG to non-simplified building societies in the fourth quarter of 2009. This guidance will take effect in the first quarter of 2010. We do not intend to introduce a wholesale tightening of liquidity requirements at that time. Instead we propose that we will, on a case-by-case basis, seek a strengthening of firms’ liquidity over a number of years, taking note of the economic pathway. We will remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q27: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

- A4.8 CP09/13 sets out our proposals for a new liquidity reporting regime. The consultation period for CP09/13 remains open until 15 July 2009.
- A4.9 The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So, non-simplified building societies will continue to report using their current regulatory reporting arrangements until end March 2010. From April 2010, these firms will report using the new regulatory reporting regime.

Q28: Do you agree with the proposed approach to reporting requirements?



# Transitional measures for building societies within the simplified ILAS regime

## Introduction

- A5.1 This Annex describes our proposals for liquidity transitional measures to be provided to those building societies that select the simplified ILAS regime (BIPRU 12.6) (simplified building societies). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A5.2 As described in Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements, together with formal structured supervisory review of compliance with our Handbook.
- A5.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. We propose that simplified building societies will continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q29: Do you agree with the proposed approach for systems and controls requirements?

### Quantitative requirements

- A5.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.

- A5.5 We propose that the BIPRU 12 quantitative requirements for simplified building societies will be deferred until June 2010.
- A5.6 During the transitional period from the fourth quarter of 2009 until end May 2010 firms will continue to refer IPRU BSOC Chapter 5. The BIPRU12 overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period to end May 2010. Instead, the adequate financial resources rule (GENPRU 1.2.26R).
- A5.7 From June 2010 the BIPRU 12 quantitative requirements (including self-sufficiency) will apply to these firms. However, rather than requiring the firms to hold the full liquid buffer required by BIPRU 12.6 from June 2010, the firms will progress towards the full requirement over a period of three years. A transitional rule will be provided that will require simplified building societies to maintain the higher of the amount that would be required by IPRU BSOC Chapter 5 and the amount of the liquidity required by applying a sliding scalar to the requirement in BIPRU 12.6.7 R. We propose a floor of 30% of the new requirement in year 1(from June 2010); 50% in year 2; 70% in year 3, and 100% in year 4.
- A5.8 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at June 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q30: Do you agree with the proposed approach for quantitative requirements?

### **Supervisory approach**

- A5.9 We do not plan to provide ILG to simplified building societies. We remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q31: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

- A5.10 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So, simplified building societies will continue to report using their current regulatory reporting arrangements until end-May 2010. From June 2010 these firms will report using the new regulatory reporting regime.

Q32: Do you agree with the proposed approach to reporting requirements?

# Transitional measures for UK branches of overseas firms (without a GLC)

## Introduction

- A6.1 This Annex describes our proposals for liquidity transitional measures to be provided to UK branches of overseas firms that do not hold a Global Liquidity Concession (GLC) under the current liquidity regime in IPRU Bank. The proposal has been provided on the basis that the new liquidity regime starts in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A6.2 As described at Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements together with formal structured supervisory review of compliance with our Handbook.
- A6.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view and we do not intend to provide a transitional measure for this class of firm.
- A6.4 Branches without a GLC are currently subject to our SYSC 11 systems and controls requirements. They do not face the same timing concerns that firms with GLCs have regarding practical considerations around the implementation of the self-sufficiency requirement from the fourth quarter of 2009. These firms will be required to continue to comply with SYSC 11 until the fourth quarter of 2009. From the fourth quarter of 2009 the new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to this class of firm.

Q33: Do you agree with the proposed approach for systems and controls requirements?

## **Quantitative requirements**

- A6.5 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.
- A6.6 We propose that in the case of firms without a GLC the quantitative aspects of BIPRU 12 should be deferred until September 2010. During the transitional period (fourth quarter of 2009 to end August 2010) firms will continue to refer to their own mismatch guidelines (including behavioural adjustments) when calculating the requirement under IPRU Bank Chapter LM. The BIPRU12 overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply during the transitional period until end August 2010. Instead, the adequate financial resources rule (GENPRU 1.2.26R) will apply during the transitional period. From September the BIPRU12 ILAS quantitative requirements (including self-sufficiency) will apply in full (unless the firm obtains a waiver/modification under BIPRU 12.8).
- A6.7 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at September 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q34: Do you agree with the proposed approach for quantitative requirements?

## **Supervisory approach**

- A6.8 We expect most branches to apply for a waiver under BIPRU 12.8. In such cases, we will continue to actively seek information from the home state regulator to help it understand the UK branch both currently and in the future.
- A6.9 If a firm does not obtain a waiver, it would be subject to the BIPRU ILAS regime from September 2010. We would issue ILG to the firm in readiness for September 2010. We do not intend to introduce a wholesale tightening of liquidity requirements at that time. Instead we propose that we will, on a case-by-case basis, seek a strengthening of firms’ liquidity over a number of years, taking note of the economic pathway. We remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q35: Do you agree with the proposed supervisory approach?

## **Reporting requirements**

- A6.10 CP09/13 sets out our proposals for a new liquidity reporting regime. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So, this class of firms will continue to report using their current regulatory reporting arrangements until end August 2010. From September 2010 these firms will report using the new regulatory reporting regime.

Q36: Do you agree with the proposed approach for reporting requirements?

# Transitional measures for UK branches of overseas firms (with a GLC)

## Introduction

- A7.1 This Annex describes our proposals for liquidity transitional measures to be provided to UK branches of overseas firms that currently benefit from a GLC provided by the current liquidity regime set out in IPRU Bank. The proposal has been provided on the basis that the new liquidity regime starts in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A7.2 As described at Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements together with formal structured supervisory review of compliance with our Handbook.
- A7.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. We also said that we would expect the vast majority of foreign branches to apply for a waiver (BIPRU 12.8). However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.
- A7.4 In the case of firms that have a GLC, we propose deferring application of the systems and controls requirements under BIPRU 12.3 and 12.4 until September 2010. From September 2010, the new systems and controls requirements provided by BIPRU 12.3 and 12.4 would then apply to these firms.

Q37: Do you agree with the proposed approach for systems and controls requirements? ?

## **Quantitative requirements**

- A7.5 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. And we initially proposed that firms would need to have in place the appropriate BIPRU 12 waivers and modifications for group wide management of liquidity purposes by the fourth quarter of 2009. Following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.
- A7.6 We now propose that the BIPRU 12 quantitative requirements for firms that currently have a GLC should be deferred until September 2010. During the transitional period from the fourth quarter of 2009 until end August 2010, we propose that we will consider applications to renew GLC arrangements and will continue to assess the applications against the usual criteria for GLCs and follow normal procedures. (We do not propose to provide an automatic extension of GLCs.) The maximum life of a GLC would be until end August 2010. From September 2010, these firms must either have obtained a modification or waiver under BIPRU 12.8 or the quantitative components of BIPRU 12 (including self-sufficiency) will apply to the branch from September 2010.
- A7.7 If we do not defer the beginning of the BIPRU 12 systems and controls requirements and quantitative requirements for this class of firms they would become subject to the full liquidity regime from its start at the fourth quarter of 2009, including the self-sufficiency requirement. We recognise that such an outcome could mean significant effort and cost for firms to organise themselves to be compliant when the new regime begins. This would potentially also include large numbers of these firms seeking to apply for waivers under BIPRU 12.8 within a compressed timescale and before the package of measures that will comprise the liquidity regime have been finalised and published.
- A7.8 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at September 2010. We intend to agree with each firm a 'window of time' during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firms becomes subject to the BIPRU 12 quantitative requirements.

Q38: Do you agree with the proposed approach for quantitative requirements?

## **Supervisory approach**

- A7.9 As discussed in Chapter 7 of CP08/22, some UK branches of overseas firms benefit from a GLC. This means that the day-to-day supervision of liquidity is transferred to the home state regulator and the home state regulator's rules apply subject to certain conditions. Where these GLCs exist, although the liquidity regulation of the firms will be conducted by the home state regulator, the host regulator does not lose its overall responsibility for ensuring that the branch holds adequate liquid resources.
- A7.10 We will continue to actively seek information from the home state regulator to help it understand the UK branch both currently and in the future.

Q39: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

A7.11 CP09/13 sets out our proposals for a new liquidity reporting regime. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. These firms will continue to report using their current regulatory reporting arrangements until end August 2010. From September 2010 these firms will report using the new regulatory reporting regime.

Q40: Do you agree with the proposed approach reporting requirements?

# Transitional measures for full scope BIPRU investment firms

## Introduction

- A8.1 This Annex describes our proposals for liquidity transitional measures to be provided to full scope BIPRU investment firms. In the new liquidity regime, these firms will be ILAS firms (BIPRU 12.5). The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.

## Our proposals

### Systems and controls requirements

- A8.2 As described at Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements together with formal structured supervisory review of compliance with our Handbook.
- A8.3 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. We propose that full scope BIPRU investment firms will continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. The new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.

Q41: Do you agree with the proposed approach  
for systems and controls requirements?

### Quantitative requirements

- A8.4 In CP08/22 we said that we did not expect to provide transitional measures for the quantitative components of the new liquidity regime. However, following feedback in response to our proposals in CP08/22 and further internal consideration, we have revised our position.



- A8.5 We propose that the BIPRU 12 quantitative requirements for full scope BIPRU investment firms should be deferred until September 2010. During the transitional period (fourth quarter 2009 to end August) the overall liquidity adequacy rule (including the self-sufficiency requirement) will not apply. The Handbook does not currently provide full scope BIPRU investment firms with detailed quantitative requirements for liquidity. And we do not propose to make detailed quantitative Handbook rules on this issue for the transitional period. From September 2010, the BIPRU 12 quantitative requirements (including self-sufficiency) will apply to these firms.
- A8.6 Firms will need to be able to apply for waivers under BIPRU 12.8 and for these to be ready for use at September 2010. We intend to agree with each firm a ‘window of time’ during which they will be able to apply for a waiver. This will ensure that we can process all waivers and they will be available as each class of firm becomes subject to the BIPRU 12 quantitative requirements.

Q42: Do you agree with the proposed approach for quantitative requirements?

### **Supervisory approach**

- A8.7 We intend to provide ‘low level backstop’ ILG to full scope BIPRU investment firms in readiness for September 2010. We do not intend to introduce a wholesale tightening of liquidity requirements at that time. Instead we propose that we will, on a case-by-case basis, seek a strengthening of firms’ liquidity over a number of years, taking note of the economic pathway. We will remain ready and able to issue guidance to a firm as part of our normal supervisory engagement with it.

Q43: Do you agree with the proposed supervisory approach?

### **Reporting requirements**

- A8.8 CP09/13 sets out our proposals for a new liquidity reporting regime. The consultation period for CP09/13 remains open until 15 July 2009. The regulatory reporting requirements will need to reflect the transitional measures we provide for the quantitative requirements of BIPRU 12. So, these firms will continue to report liquidity matters to the extent their current regulatory reporting requires this until end August 2010. From September 2010 these firms will report using the new regulatory reporting regime.

Q44: Do you agree with the proposed approach for reporting requirements?

# Transitional measures for non-ILAS firms

## Introduction

- A9.1 This Annex describes our proposals for liquidity transitional measures to be provided to those firms that will be ‘non-ILAS firms’ under the new liquidity regime. These firms comprise BIPRU limited licence limited activity investment firms. The proposal has been provided on the basis that the new liquidity regime begins in the fourth quarter of 2009.
- A9.2 The proposals within CP08/22 proposed that non-ILAS firms would only be subject to BIPRU 12.1 to BIPRU 12.4. We are discussing a number of issues in relation to these firms with trade associations and will publish final proposals in our Policy Statement later in the year.

## Systems and controls requirements

- A9.3 As described at Chapter 3 of CP08/22, the systems and controls provisions (BIPRU 12.3 and 12.4) contain our proposals to deliver what is one of the fundamental objectives of our new liquidity policy regime – a substantial improvement in liquidity risk management. We intend to do this through introducing enhanced systems and controls requirements, together with formal structured supervisory review of compliance with our Handbook.
- A9.4 In CP08/22 we said that we did not expect to provide transitional measures for the BIPRU 12 systems and controls requirements. This remains our view. And so, BIPRU Limited Licence firms and BIPRU Limited Activity firms will be required to continue to comply with the systems and controls requirements set out in SYSC 11 until the fourth quarter of 2009. And the new systems and controls requirements (BIPRU 12.3 and 12.4) will apply to these firms from the start of the new liquidity regime in the fourth quarter of 2009.
- A9.5 Following feedback to CP08/22 and further internal consideration, we propose that in the third quarter of 2009 / fourth quarter of 2009 we work with trade associations to develop industry guidance for non ILAS firms on the systems and controls requirements in BIPRU 12.3 and 12.4.

Q45: Do you agree with the proposed approach for systems and controls requirements?

### **Reporting requirements**

A9.6 CP09/13 sets out our proposals for a new regulatory reporting regime for liquidity. The consultation period for CP09/13 remains open until 15 July 2009. Currently, non-ILAS firms are not subject to detailed regulatory reporting requirements for liquidity matters. Under the new liquidity regime, non-ILAS firms will be required to report once per year (31 December each year) on their compliance with the systems and controls requirements outlined in BIPRU 12.3 and 12.4. The first report on systems and controls requirements to be completed by non-ILAS firms will be as at 31 December 2010. And it will need to be delivered to us in early January 2011. Given the nature and timing of the reporting requirements we do not intend to provide transitional measures for regulatory reporting.

Q46: Do you agree with the proposed approach for regulatory requirements?

# List of questions

## **Chapter 2 – Implementation of the FSA’s new liquidity regime**

- Q1: Do you agree with our proposal to provide transitional arrangements on a phased basis, differentiated by class of firm and type of requirement? If not, how could we amend it?
- Q2: Do you agree with our proposals to defer implementation of our proposed self-sufficiency requirements for different classes of firms and to agree with each firm a ‘window of time’ to apply for a waiver?
- Q3: How long do you consider you would need after the waiver decision has been made to prepare for compliance with the new regime?
- Q4: What are your views on our proposed supervisory approach through to economic recovery?

## **Chapter 3 – Cost-benefit analysis**

- Q5: Do you agree with the approach to estimate current short-term Sterling treasury bills held by firms?
- Q6: Do you consider the estimated ratio of 3% reasonable?
- Q7: Do you agree that the transitional regime as such will not impose significant additional administrative and reporting cost on simplified banks and building societies?
- Q8: Do you believe that simplified banks and building societies incur additional transaction cost when accessing the government bond market?

Q9: Do you agree with the costing methodology for the simplified regime transitional arrangements?

Q10: Do you agree with the cost estimates for the simplified regime transitional arrangements?

Q11: Do you agree that the proposals will result in the benefits described in this section?

#### **Chapter 4 – Compatibility statement with our objectives and the principles of good regulation**

Q12: Do you agree that our proposed liquidity regime is compatible with our statutory objectives and principles of good regulation?

#### **Annex 1 – Transitional measures for UK incorporated banks currently using the Sterling Stock Liquidity approach**

Q13: Do you agree with the proposed approach for systems and controls requirements?

Q14: Do you agree with the proposed approach for quantitative requirements?

Q15: Do you agree with the proposed supervisory approach?

Q16: Do you agree with the proposed approach for reporting requirements?

#### **Annex 2 – Transitional measures for UK incorporated banks currently using the Mismatch Liquidity approach**

Q17: Do you agree with the proposed approach for systems and controls requirements?

Q18: Do you agree with the proposed approach for quantitative requirements?

Q19: Do you agree with the proposed supervisory approach?

Q20: Do you agree with the proposed approach?

#### **Annex 3 – Transitional measures for UK incorporated banks that select simplified ILAS**

Q21: Do you agree with the proposed approach for systems and controls requirements?

Q22: Do you agree with the proposed approach for quantitative requirements?

Q23: Do you agree with the proposed supervisory approach?

Q24: Do you agree with the proposed approach for reporting requirements?

#### **Annex 4 – Transitional measures for building societies not within the simplified ILAS regime**

Q25: Do you agree with the proposed approach for systems and controls requirements?

Q26: Do you agree with the proposed approach for quantitative requirements?

Q27: Do you agree with the proposed supervisory approach?

Q28: Do you agree with the proposed approach to reporting requirements?

#### **Annex 5 – Transitional proposal for building societies within simplified ILAS**

Q29: Do you agree with the proposed approach for systems and controls requirements?

Q30: Do you agree with the proposed approach for quantitative requirements?

Q31: Do you agree with the proposed supervisory approach

Q32: Do you agree with the proposed approach to reporting requirements?

#### **Annex 6 – Transitional measures for UK branches of overseas firms (without a GLC)**

Q33: Do you agree with the proposed approach for systems and controls requirements?

Q34: Do you agree with the proposed approach for quantitative requirements?

Q35: Do you agree with the proposed supervisory approach?

Q36: Do you agree with the proposed approach for reporting requirements?

#### **Annex 7 – Transitional measures for UK branches of overseas firms (with a GLC)**

Q37: Do you agree with the proposed approach for systems and controls requirements?

Q38: Do you agree with the proposed approach for quantitative requirements?

Q39: Do you agree with the proposed supervisory approach?

Q40: Do you agree with the proposed approach reporting requirements?

### **Annex 8 – Transitional proposal for full scope BIPRU investment firms**

Q41: Do you agree with the proposed approach for systems and controls requirements?

Q42: Do you agree with the proposed approach for quantitative requirements?

Q43: Do you agree with the proposed supervisory approach?

Q44: Do you agree with the proposed approach for reporting requirements?

### **Annex 9 – Transitional measures for non-ILAS firms**

Q45: Do you agree with the proposed approach for systems and controls requirements?

Q46: Do you agree with the proposed approach for regulatory requirements?

# Draft Handbook text



## **LIQUIDITY (TRANSITIONAL PROVISIONS) 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 150(2) (Actions for damages);
  - (3) section 156 (General supplementary powers); and
  - (4) 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 Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 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 Liquidity (Transitional Provisions) Instrument 2009.

By order of the Board

[ ] September 2009

## Annex A

### 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 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 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	<i>BIPRU</i> 12.2 and <i>BIPRU</i> 12.5 to <i>BIPRU</i> 12.8	R	In relation to a <i>firm</i> which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LS of <i>IPRU(BANK)</i> , the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 March 2010	1 December 2009
2	<i>BIPRU</i> 12.2 and <i>BIPRU</i> 12.5 to <i>BIPRU</i> 12.8	R	In relation to a <i>firm</i> which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of <i>IPRU(BANK)</i> and which is not a <i>firm</i> that (a) falls into <i>BIPRU</i> 12.1.1R(2) or (3), or (b) has notified the <i>FSA</i> that it intends to adopt the <i>simplified ILAS</i> approach, the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until the date on which the <i>firm</i> receives <i>individual liquidity guidance</i> from the <i>FSA</i> or, if earlier, 30 June 2011.	1 December 2009
3	<i>BIPRU</i> 12.2 and <i>BIPRU</i> 12.5 to	R	In relation to a <i>firm</i> which as at 30 November 2009 calculates its liquidity resources in	1 December 2009 until 31 May 2010	1 December 2009

	<i>BIPRU 12.8</i>		accordance with Chapter LM of <i>IPRU(BANK)</i> and which is not a <i>firm</i> that falls into <i>BIPRU 12.1.1R(2)</i> or (3), but which has notified the <i>FSA</i> that it intends to adopt the <i>simplified ILAS</i> approach, the <i>rules</i> and <i>guidance</i> listed in column (2) do not apply.		
4	<i>BIPRU 12.2</i> and <i>BIPRU 12.5</i> to <i>BIPRU 12.8</i>	R	In relation to a <i>firm</i> which as at 30 November 2009 is subject to <i>IPRU(BSOC)</i> and which has not notified the <i>FSA</i> that it intends to adopt the <i>simplified ILAS</i> approach, the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 March 2010	1 December 2009
5	<i>BIPRU 12.2</i> and <i>BIPRU 12.5</i> to <i>BIPRU 12.8</i>	R	In relation to a <i>firm</i> which as at 30 November 2009 is subject to <i>IPRU(BSOC)</i> and which has notified the <i>FSA</i> that it intends to adopt the <i>simplified ILAS</i> approach, the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 May 2010	1 December 2009
6	<i>BIPRU 12.2</i> and <i>BIPRU 12.5</i> to <i>BIPRU 12.8</i>	R	In relation to a <i>firm</i> which as at 30 November 2009 falls into <i>BIPRU 12.1.1R(2)</i> or (3), the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 August 2010	1 December 2009
7	<i>BIPRU 12.2</i> and <i>BIPRU 12.5</i> to <i>BIPRU 12.8</i>	R	In relation to a <i>firm</i> which as at 30 November 2009 is a <i>BIPRU investment firm</i> , the <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 August 2010	1 December 2009

Guidance for firms choosing to use the simplified ILAS approach

- 26.3 G An *ILAS BIPRU firm* meeting the criteria in *BIPRU 12.6.6R* may notify the *FSA* at any point before 31 May 2010 that it intends to adopt the *simplified ILAS* approach and may therefore benefit from the transitional provisions in this section from the date of that notification.

Guidance for firms falling into *BIPRU TP 26.2(2)*

- 26.4 G In relation to those *firms* falling into *BIPRU* TP 26.2(2), the *FSA* does not expect to issue *individual liquidity guidance* before 31 May 2010, but expects to have done so by 30 June 2011.

Guidance for firms which become an *ILAS BIPRU* firm or non-*ILAS BIPRU* firm after 1 December 2009

- 26.5 G *BIPRU* TP 26.2 applies to a *firm* which has become either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) before 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: ILAS BIPRU firms not caught by BIPRU TP 28 or BIPRU TP 29**

Application

- 27.1 R *BIPRU* TP 27 applies to:
- (1) a *firm* which is an *ILAS BIPRU firm* as at 30 November 2009 but which does not:
    - (a) calculate its liquidity resources in accordance with Chapter LM of *IPRU(BANK)*; or
    - (b) fall into *BIPRU* 12.1.1R(2) or (3) and as at that date have a Global Liquidity Concession;
  - (2) a *firm* which is a *BIPRU limited licence firm* as at 30 November 2009; and
  - (3) a *firm* which is a *BIPRU limited activity firm* as at 30 November 2009.

Duration of transitional provisions

- 27.2 R *BIPRU* TP 27 applies:
- (1) until 31 March 2010, in the case of a *firm* which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LS of *IPRU(BANK)*;
  - (2) until 31 March 2010, in the case of a *firm* which as at 30 November 2009 is subject to *IPRU(BSOC)* and has not notified the *FSA* that it intends to use the *simplified ILAS* approach;

(3) until 31 August 2010, in the case of a *BIPRU investment firm*; and

(4) until 31 May 2010, in the case of any other *firm* falling into *BIPRU TP 27.1R*.

#### Transitional provisions

#### 27.3

(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	<i>BIPRU 12.3</i> and <i>BIPRU 12.4</i>	R	References to the <i>overall liquidity adequacy rule</i> contained in the <i>rules</i> and <i>guidance</i> in the sections of the Handbook listed in column (2) are replaced by ones to the <i>overall financial adequacy rule</i> .	1 December 2009 until the relevant date set out in <i>BIPRU TP 27.2</i> .	1 December 2009
2	<i>GENPRU 1.2.26R</i>	R	For the purposes of complying with <i>GENPRU 1.2.26R</i> as regards the adequacy of liquidity resources, a <i>firm</i> must apply the <i>rules</i> and <i>guidance</i> in <i>BIPRU 12.3</i> and <i>BIPRU 12.4</i> instead of applying the <i>ICAAP rules</i> .	1 December 2009 until the relevant date set out in <i>BIPRU TP 27.2</i> .	1 December 2009

Guidance for firms which become an ILAS BIPRU firm or non-ILAS BIPRU firm after 1 December 2009

27.4 G *BIPRU TP 27.3* applies to a *firm* which has become either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) before 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 Application of GENPRU 1.2, BIPRU 12.3 and BIPRU 12.4: banks to which IPRU(BANK) Chapter LM applies (other than simplified ILAS BIPRU firms)**

Application

- 28.1 R *BIPRU* TP 28 applies to an *ILAS BIPRU firm* which:
- (1) as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of *IPRU(BANK)*; and
  - (2) has not notified the *FSA* that it intends to adopt the *simplified ILAS* approach in *BIPRU* 12.6.

Duration of transitional provisions

- 28.2 R *BIPRU* TP 28 applies:
- (1) in the case of a *firm* falling into *BIPRU* TP 28.1 which also falls into *BIPRU* 12.1.1R(2) or (3), until 31 August 2010; and
  - (2) in the case of any other *firm* falling into *BIPRU* TP 28.1, until the date on which that *firm* receives from the *FSA individual liquidity guidance* or, if earlier, 30 June 2011.
- 28.3 G In the case of a *firm* falling into *BIPRU* TP 28.1 which also falls into *BIPRU* 12.1.1R(2) or (3), the *FSA* does not expect to issue *individual liquidity guidance* before 31 May 2010, but expects to have done so by 30 June 2011.

Transitional provisions

28.4

(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	<i>BIPRU</i> 12.3 and <i>BIPRU</i> 12.4	R	References to the <i>overall liquidity adequacy rule</i> contained in the <i>rules</i> and <i>guidance</i> in the sections of the Handbook listed in column (2) are replaced by ones to the <i>overall financial adequacy rule</i> .	1 December 2009 until the relevant date set out in <i>BIPRU</i> TP 28.2.	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 <i>firm</i> must apply the <i>rules</i> and <i>guidance</i> in BIPRU 12.3 and BIPRU 12.4 instead of applying the ICAAP <i>rules</i> .	1 December 2009 until the relevant date set out in BIPRU TP 28.2.	1 December 2009
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Guidance for firms which become an ILAS BIPRU firm or non-ILAS BIPRU firm after 1 December 2009

- 28.4 G BIPRU TP 28.4 applies to a *firm* which has become either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) before 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 29 Application of GENPRU 1.2, BIPRU 12.3 and BIPRU 12.4: banks to which IPRU(BANK) Chapter LM applies and which are simplified ILAS BIPRU firms**

Application

- 29.1 R BIPRU TP 29 applies to an *ILAS BIPRU firm* which:
- (1) as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of IPRU(BANK); and
  - (2) has notified the FSA that it intends to adopt the *simplified ILAS* approach in BIPRU 12.6.

Duration of transitional provisions

- 29.2 R BIPRU TP 29 applies until 31 May 2010.

Transitional provisions

29.3

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional		Transitional Provision	Transitional provision: dates	Handbook provisions: coming

	provision applies			in force	into force
1	<i>BIPRU</i> 12.3 and <i>BIPRU</i> 12.4	R	References to the <i>overall liquidity adequacy rule</i> contained in the <i>rules</i> and <i>guidance</i> in the sections of the Handbook listed in column (2) are replaced by ones to the <i>overall financial adequacy rule</i> .	1 December 2009 until 31 May 2010	1 December 2009
2	<i>GENPRU</i> 1.2.26R	R	For the purposes of complying with <i>GENPRU</i> 1.2.26R as regards the adequacy of liquidity resources, a <i>firm</i> must apply the <i>rules</i> and <i>guidance</i> in <i>BIPRU</i> 12.3 and <i>BIPRU</i> 12.4 instead of applying the <i>ICAAP rules</i> .	1 December 2009 until 31 May 2010	1 December 2009

Guidance for firms choosing to use the simplified ILAS approach

- 29.4 G An *ILAS BIPRU firm* meeting the criteria in *BIPRU* 12.6.6R may notify the *FSA* at any point before 31 May 2010 that it intends to adopt the *simplified ILAS* approach and may therefore benefit from the transitional provisions in this section from the date of that notification.

Guidance for firms which become an *ILAS BIPRU firm* or *non-ILAS BIPRU firm* after 1 December 2009

- 29.5 G *BIPRU* TP 29.3 applies to a *firm* which has become either an *ILAS BIPRU firm* or a *non-ILAS BIPRU firm* (as the case may be) before 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 30 Liquid assets buffer scalar: firms that intend to adopt simplified ILAS**

Application

- 30.1 R *BIPRU* TP 30 applies to a *firm* which before 31 May 2010 notifies the *FSA* that it intends to adopt the *simplified ILAS* approach set out in *BIPRU* 12.6 with effect from 1 June 2010.



Duration of transitional provisions

30.2 R *BIPRU* TP 30 applies until 31 May 2013.

Transitional provisions

30.3 R For the purpose of complying with *BIPRU* 12.2.8R, a *firm* falling into *BIPRU* TP 30.1 and which as at 1 December 2009 is an *ILAS BIPRU firm* must ensure that:

- (1) at all times between 1 June 2010 and 31 May 2011, its liquid assets buffer is no less than 30% of the amount produced by the calculation in *BIPRU* 12.6.7R;
- (2) at all times between 1 June 2011 and 31 May 2012, its liquid assets buffer is no less than 50% of the amount produced by the calculation in *BIPRU* 12.6.7R; and
- (3) at all times between 1 June 2012 and 31 May 2013, its liquid assets buffer is no less than 70% of the amount produced by the calculation in *BIPRU* 12.6.7R.

30.4 R For the purpose of complying with *BIPRU* 12.2.8R and in relation to a *firm* which becomes an *ILAS BIPRU firm* after 1 December 2009 and before 31 May 2010 and which notifies the *FSA* of its intention to adopt the *simplified ILAS* approach before 31 May 2010, that *firm* must ensure that:

- (1) at all times between the date on which it notifies the *FSA* of its intention to adopt the *simplified ILAS* approach and the date immediately preceding the first anniversary of that notification, its liquid assets buffer is no less than 30% of the amount produced by the calculation in *BIPRU* 12.6.7R;
- (2) at all times between the date of the first anniversary of that notification and the date immediately preceding the second anniversary, its liquid assets buffer is no less than 50% of the amount produced by the calculation in *BIPRU* 12.6.7R; and
- (3) at all times between the date of the second anniversary of that notification and the date immediately preceding the third anniversary, its liquid assets buffer is no less than 70% of the amount produced by the calculation in *BIPRU* 12.6.7R.

30.5 R The effect of *BIPRU* TP 30.3 and 30.4 is that a *firm* adopting the *simplified ILAS* approach 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 100% of the amount produced by the calculation in *BIPRU* 12.6.7R.

**TP 31 BIPRU 12.3 and BIPRU 12.4: banks with a Global Liquidity Concession**

Application

31.1 R *BIPRU* TP 31 applies to a *firm* falling into *BIPRU* 12.1.1R(2) or (3) which as at 30 November 2009 has a Global Liquidity Concession.

Duration of transitional provisions

31.2 R *BIPRU* TP 31 applies until 31 August 2010 or, if earlier, the date on which the *firm*'s Global Liquidity Concession expires.

Transitional provisions

31.3

(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	<i>BIPRU</i> 12.3 and <i>BIPRU</i> 12.4	R	The <i>rules</i> and <i>guidance</i> in the sections listed in column (2) do not apply.	1 December 2009 until 31 August 2010	1 December 2009

## Annex B

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text.

*[Note to the reader: These transitionals assume that the commencement date for the instrument that brings in the new reporting rules is 1 December 2009 rather than 1 February as stated in CP09/13]*

Insert the following text into SUP TP 1.

TP 1 Transitional provisions

TP1.1 Transitional provisions applying to the Supervision manual only

...

TP1.2

(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
	...				
<u>12T</u>	<p><u>SUP 16.12.5R to SUP 16.12.7R;</u></p> <p><u>SUP 16.12.10R to SUP 16.12.17R;</u></p>	<u>R</u>	<p><u>(1) This rule deals with the date (the “start date”) on which the requirements (the “new requirements”) relating to data items FSA047 to FSA055 (inclusive) begin for certain classes of firm.</u></p> <p><u>(2) This rule also deals with the date on which the requirements relating to data item FSA010 end.</u></p>	<u>As set out in column (4)</u>	<u>As set out in column (4)</u>

SUP  
16.12.22R to  
SUP  
16.12.27R

- (3) If the start date set out in this rule for a new data item occurs part of the way through what would have been the reporting period for that data item under SUP 16.12 if the relevant part of SUP 16.12 had been in force then the first reporting period for that data item begins on the first day (“the first day”) of the reporting period specified in SUP 16.12. 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.
- (4) The start date for reporting on a solo basis for a firm that as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LS of IPRU(BANK) is 1 April 2010.
- (5) The start date for reporting on a solo basis for a firm which as at 30 November 2009 calculates its liquidity resources in accordance with Chapter LM of IPRU(BANK) and which is not a firm that:
- (a) falls into BIPRU 12.1.1R(2) or (3); or
  - (b) has notified the FSA that it intends to adopt the simplified ILAS approach;

is the date it receives individual liquidity guidance from the FSA or, if later, 1 June 2010. If the start date has not already occurred by then, the start date is 30 June 2011.

(6) The start date for reporting on a solo basis for a firm which satisfies the following conditions:

(a) as at 30 November 2009 it calculates its liquidity resources in accordance with Chapter LM of IPRU(BANK); and

(b) it does not fall into BIPRU 12.1.1R(2) or (3); and

(c) it has notified the FSA that it intends to adopt the simplified ILAS approach;

is 1 June 2010.

(7) The start date for reporting on a solo basis for a firm which satisfies the following conditions:

(a) as at 30 November 2009 it is subject to IPRU(BSOC); and

(b) it has not notified the FSA that it intends to adopt the simplified ILAS approach;

is 1 April 2010.

(8) The start date for reporting on a solo basis for a *firm* which satisfies the following conditions:

(a) as at 30 November 2009 it is subject to *IPRU(BSOC)*; and

(b) it has notified the *FSA* that it intends to adopt the *simplified ILAS* approach;

is 1 June 2010.

(9) The start date for reporting on a solo basis for a *firm* which as at 30 November 2009 is a *BIPRU investment firm* is 1 September 2010.

(10) The start date for a *firm* which as at 30 November 2009 falls into *BIPRU 12.1.1R(2) or (3)* is 1 September 2010.

(11) The reporting period for the first report on a solo basis for *non-ILAS BIPRU firms* ends on 31 December 2010.

(12) The start date for reporting on the basis of a *UK consolidation group* or a *defined liquidity group* is 1 September 2010, subject to (13).

(13) But if a *UK consolidation group* has no *ILAS BIPRU firms* in it, (11) applies.

			<p><u>(14) For the purpose of deciding whether a UK consolidation group has any ILAS BIPRU firms in it for the purpose of (13) any group member in which the group holds no more than a participation is ignored.</u></p> <p><u>(15)(a) The requirements relating to data item FSA010 are as follows.</u></p> <p><u>(b) If a firm does not fall into RAG 1 as at 30 November 2009, it does not have to submit data item FSA010.</u></p> <p><u>(c) Otherwise, the last reporting period for data item FSA010 ends on the first date when a reporting period for both data item FSA047 and FSA048 or, as applicable, FSA049 has begun. That last reporting period for FSA010 is shortened accordingly if necessary.</u></p>		
<u>12U</u>	<u>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</u>	<u>G</u>	<u>The effect of paragraph 12T is that if a firm becomes subject to BIPRU 12 after 30 November 2009, the requirements listed in column (2) apply immediately. The delayed start dates in paragraph 12T do not apply.</u>	<u>As set out in column (4)</u>	<u>As set out in column (4)</u>
...					





**PUB REF: 001785**

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