

## Chapter 6

# Basic liquid assets requirement

## 6.3 Core liquid assets

- 6.3.1** **R** Subject to ■ MIFIDPRU 6.3.3R to ■ MIFIDPRU 6.3.5R, a *core liquid asset* means any of the following, when denominated in pound sterling:
- coins and banknotes;
  - short-term deposits at a *UK-authorised credit institution*;
  - assets representing claims on or guaranteed by the UK government or the Bank of England;
  - units or shares in a *short-term MMF*;
  - units or shares in a *third country* fund that is comparable to a *short-term MMF*; and
  - trade receivables*, if the conditions in ■ MIFIDPRU 6.3.3R are met.
- 6.3.2** **G** When assessing whether a *third country* fund is comparable to a *short-term MMF*, a *firm* should consider factors such as:
- (1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on instruments in article 10(1) of the *Money Market Funds Regulation*; and
  - (2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the requirements applicable to *short-term MMFs* in the *Money Market Funds Regulation*.
- 6.3.3** **R** A *firm* may treat *trade receivables* as *core liquid assets* if:
- (1) the *firm* is:
    - (a) an *SNI MIFIDPRU investment firm*; or
    - (b) a *MIFIDPRU investment firm* that does not have permission to carry on:
      - (i) *dealing on own account*; or
      - (ii) underwriting of *financial instruments* and/or placing of *financial instruments* on a *firm commitment* basis;
  - (2) they are receivable within 30 days;

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- (3) they account for no more than one third of the requirement based upon the *fixed overheads requirement* in ■ MIFIDPRU 6.2.1R(1);
  - (4) they are not used to meet the requirement for guarantees in ■ MIFIDPRU 6.2.1R(2); and
  - (5) they are subject to a minimum haircut of 50%.
- (1) If a *firm's relevant expenditure* or guarantees are incurred in a currency other than pound sterling, the *firm* may also treat the following assets as *liquid assets*, when denominated in that currency:
    - (a) coins and banknotes;
    - (b) short-term deposits at a *credit institution*;
    - (c) assets representing claims on or guaranteed by a central bank or government in a *third country*;
    - (d) units or shares in a *short-term MMF*;
    - (e) units or shares in a *third country* fund that is comparable to a *short-term MMF*; and
    - (f) *trade receivables*, if the conditions in ■ MIFIDPRU 6.3.3R are met.
  - (2) The proportion of *core liquid assets* denominated in any currency other than pound sterling that a *firm* can rely upon to meet its *basic liquid asset requirement*, must be no greater than:
    - (a) for the requirement in ■ MIFIDPRU 6.2.1R(1), the proportion of *relevant expenditure* incurred in that currency; and
    - (b) for the requirement in ■ MIFIDPRU 6.2.1R(2), the proportion of *guarantees* provided in that currency.
  - (3) This *rule* is subject to ■ MIFIDPRU 6.3.5R.

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The effect of ■ MIFIDPRU 6.3.4R(2) is illustrated by the following example:

- (1) A *firm* has total fixed overheads with a value of £1,200,000, as follows:
  - (a) 20%, equivalent to £240,000, are incurred in USD; and
  - (b) 5%, equivalent to £60,000, are incurred in Swiss francs (CHF).
- (2) In addition, the *firm* has provided total guarantees to *clients* with a value of £10,000,000, of which 50%, equivalent to £5,000,000, are incurred in USD.
- (3) The *firm's fixed overheads requirement* (one quarter of its total fixed overheads calculated in accordance with ■ MIFIDPRU 4.5) is £300,000.
- (14) Under ■ MIFIDPRU 6.2.1R, the *firm's basic liquid assets requirement* amounts to £260,000, as follows:
  - (a) £100,000 are in respect of the requirement in ■ MIFIDPRU 6.2.1R(1) (one third of the amount of its *fixed overheads requirement*); and

(b) £160,000 are in respect of the requirement in ■ MIFIDPRU 6.2.1R(2) (1.6% of the total amount of any guarantees provided to *clients*).

(5) To meet its requirement in ■ MIFIDPRU 6.2.1R, a *firm* may choose to use *liquid assets* listed in ■ MIFIDPRU 6.3.4R denominated in a currency other than pound sterling, up to a maximum equivalent to £105,000, as follows:

(a) Up to the equivalent of £100,000 may be held in USD denominated *liquid assets* (i.e. 20% of 100,000 = 20,000, to meet the requirement in ■ MIFIDPRU 6.2.1R(1); and 50% of 160,000 = 80,000 to meet the requirement in ■ MIFIDPRU 6.2.1R(2)); and

(b) Up to the equivalent of £5,000 may be held in CHF denominated *liquid assets* (i.e. 5% of 100,000 = 5,000, to meet the requirement in ■ MIFIDPRU 6.2.1R(1)).

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A *firm* must not treat any of the following as a *core liquid asset*:

- (1) any asset that belongs to a *client*; and
- (2) any other asset that is encumbered.

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(1) For the purposes of ■ MIFIDPRU 6.3.5R(1), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

(2) For the purposes of ■ MIFIDPRU 6.3.5R(2), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.