

Chapter 4

Capital resources

4.2D Liquidity resources requirements

Application

- 4.2D.1 **R** This section applies to a *firm* carrying on any *home financing* or *home finance administration* connected to *regulated mortgage contracts*, unless as at 26 April 2014 its *Part 4A permission* was and continues to remain subject to a restriction preventing it from undertaking new *home financing* or *home finance administration* connected to *regulated mortgage contracts*.

Adequacy of liquidity resources

- 4.2D.2 **R** A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

- 4.2D.3 **G** In assessing the adequacy of liquidity resources, a *firm* should have regard to the overall character of the resources available to it, which enable it to meet its liabilities as they fall due. A *firm* should ensure that:

- (1) it holds sufficient assets which are marketable, or otherwise realisable;
- (2) it is able to generate funds from those assets in a timely manner; and
- (3) it maintains a prudent funding profile in which its assets are of appropriate maturities, taking into account the expected timing of its liabilities.

Systems and controls requirements

- 4.2D.4 **R** A *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* over the appropriate set of time horizons for its business activities, to ensure that it maintains adequate levels of liquidity resources. These strategies, policies, processes, and systems must be appropriate to the *firm's* business lines, currencies in which it operates, and its *group* companies and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

- 4.2D.5 **R** The strategies, policies, processes and systems referred to in **R** MIPRU 4.2D.4 **R** must be proportionate to the nature, scale and complexity of the *firm's* activities and the risk profile of the *firm*.

4.2D.6 **R** A *firm* must have in place reliable management information systems to provide its *governing body*, *senior managers* and other appropriate personnel with timely and forward-looking information on the liquidity position of the *firm*.

4.2D.7 **R** A *firm* must ensure that its *governing body* reviews regularly (and not less frequently than annually) the continued adequacy of any strategies, policies, processes and systems in place in accordance with ■ MIPRU 4.2D.4 R

Stress testing and contingency funding plans

4.2D.8 **R** A *firm* must consider alternative scenarios in which its liquidity position could be impacted. The consideration of alternative scenarios must include and deal with off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, in relation to which the *firm* acts as *sponsor* or provides material liquidity support. These scenarios must be incorporated into the stress testing under ■ MIPRU 4.2D.9 R.

4.2D.9 **R** In order to ensure compliance with ■ MIPRU 4.2D.2 R, a *firm* must:

- (1) conduct on a regular basis appropriate stress tests so as to:
 - (a) identify sources of potential liquidity strain; and
 - (b) ensure that the risks of current liquidity exposures can be adequately managed; and
- (2) analyse the separate and combined impact of possible future liquidity stresses on its:
 - (a) cash flows;
 - (b) liquidity position; and
 - (c) solvency; and
- (3) make, as soon as is practicable after a test has been performed, and maintain a written record of all stress tests and their results

4.2D.10 **R** A *firm* must ensure that its *governing body* reviews regularly the stresses and scenarios tested and the assumptions underlying the funding position of the *firm* to ensure that their nature and severity remain appropriate and relevant to it.

4.2D.11 **G** For the purpose of ■ MIPRU 4.2D.10 R a review should take into account:

- (1) changes in market conditions;
- (2) changes in funding sources and inflows;
- (3) changes in the nature, scale or complexity of the *firm's* business model and activities; and
- (4) the *firm's* practical experience in periods of stress.

- 4.2D.12 **R** A *firm* must adjust its strategies, internal policies and limits on liquidity risk, taking into account the outcome of the alternative scenarios referred to in ■ MIPRU 4.2D.8 R.
- 4.2D.13 **R**
- (1) A *firm* must have in place contingency funding plans setting out adequate strategies and proper implementation measures in order to address potential liquidity shortfalls.
 - (2) The contingency funding plans must be:
 - (a) in writing;
 - (b) approved by the *firm's governing body*;
 - (c) regularly tested; and
 - (d) updated on the basis of the outcome of the stress tests, testing alternative scenarios set out in ■ MIPRU 4.2D.8 R.
- 4.2D.14 **G** A contingency funding plan sets out a *firm's* strategies for managing liquidity shortfalls in emergency situations. Its aim should be to ensure that, in each of the stresses set out in ■ MIPRU 4.2D.11 G, it would have sufficient liquidity resources to ensure that it can meet its liabilities as they fall due.