

## Chapter 12

# Liquidity standards

## 12.9 Individual liquidity guidance and regulatory intervention points

### Appropriate regulator assessment process

- 12.9.1 **G** The *appropriate regulator* will give *individual liquidity guidance* to a *standard ILAS BIPRU firm*. Ordinarily, the *appropriate regulator* will give *individual liquidity guidance* after a review of a *standard ILAS BIPRU firm's ILAA*. The *appropriate regulator* will, however, issue *individual liquidity guidance* to such a *firm* whenever it is considered appropriate.
- 12.9.2 **G** In assessing the adequacy of an *ILAS BIPRU firm's* liquidity resources, the *appropriate regulator* draws on more than just a review of the submitted *ILAA*, or in the case of a *simplified ILAS BIPRU firm*, the submitted *ILSA*. Use is made of wider supervisory knowledge of a *firm* and of wider market developments and practices. When forming a view of the *individual liquidity guidance* to be given to an *ILAS BIPRU firm*, the *appropriate regulator* will also consider the regulator's firm risk assessment and any other issues arising from day-to-day supervision.
- 12.9.3 **G** The *appropriate regulator* will take a risk-based and proportionate approach to the review of a *firm's ILAA* or *ILSA*, focusing where appropriate on that *firm's* approach to dealing with the risks it faces.
- 12.9.4 **G** As part of the *SLRP*, the *appropriate regulator* will give a *standard ILAS BIPRU firm individual liquidity guidance* advising it of the amount and quality of liquidity resources which the *appropriate regulator* considers are appropriate, having regard to the *liquidity risk* profile of that *firm*. In giving *individual liquidity guidance*, the *appropriate regulator* will also advise the *firm* of what it considers to be a prudent funding profile for the *firm*. In giving the *firm individual liquidity guidance* as to its funding profile, the *appropriate regulator* will consider the extent to which the *firm's* liabilities are adequately matched by assets of appropriate maturities. In both cases, the *appropriate regulator* will have regard to the adequacy of a *firm's* systems and controls in relation to *liquidity risk* when judged against the standard described in the *rules and guidance* in ■ BIPRU 12.3 and ■ BIPRU 12.4. *Individual liquidity guidance* will therefore have two components:
- (1) *guidance* about the *firm's* liquid assets buffer; and
  - (2) *guidance* about the *firm's* funding profile.

- 12.9.5 **G** The *appropriate regulator* will ordinarily not expect to give *individual liquidity guidance* to a *simplified ILAS BIPRU firm*. However, if after review of such a *firm's ILSA*, the *appropriate regulator* is not satisfied that the *simplified buffer requirement* delivers an adequate amount and quality of liquidity resources for that *firm*, having regard to its *liquidity risk* profile, the *appropriate regulator* will issue the *firm* with *individual liquidity guidance* and may also consider revoking the *firm's simplified ILAS waiver*.
- 12.9.6 **G** In giving *individual liquidity guidance*, the *appropriate regulator* seeks a balance between delivering consistent outcomes across the *individual liquidity guidance* that it gives to every *ILAS BIPRU firm* and recognising that such *guidance* should reflect the individual features of a *firm*. Comparison with the assumptions used by other *firms* will be used to trigger further enquiry.
- 12.9.7 **G** Following an internal validation process, the *appropriate regulator* will write to the *standard ILAS BIPRU firm* whose *ILAA* it has reviewed, providing both quantitative and qualitative feedback on the results of the *appropriate regulator's* assessment. This letter will notify that *firm* of the *individual liquidity guidance* that the *appropriate regulator* considers appropriate together with its reasons for concluding that such *guidance* is appropriate. The *appropriate regulator* will adopt the same process where it chooses to give *individual liquidity guidance* to a *simplified ILAS BIPRU* following a review of that *firm's ILSA*.
- 12.9.8 **G** Where the amount and quality of liquidity resources which the *appropriate regulator* considers a *firm* needs having regard to its *liquidity risk* profile are not the same as the *firm's* own assessment of those resources under its *ILAA*, the *appropriate regulator* expects to discuss any such difference with the *firm*.
- 12.9.9 **G** Consistent with *Principle 11* (Relations with regulators), the *appropriate regulator* will expect a *firm* to notify it if the *firm* does not propose to follow its *individual liquidity guidance*. The *appropriate regulator* will expect any such notification to be accompanied by a clear account of the *firm's* reasons for considering the *individual liquidity guidance* to be inappropriate. The *appropriate regulator* will expect to receive any such notification within one *month* from the date on which it gives *individual liquidity guidance* to the *firm*. If agreement through further analysis and discussion cannot be reached (including through use of the *appropriate regulator's* powers under section 166 (Reports by skilled persons) of the Act), then the *appropriate regulator* will consider using its powers under the Act (for example, its power under section 55J to vary, on its own initiative, a *firm's Part IV permission* or its *power of intervention* under section 196) so as to require a *firm* to hold such liquidity resources as the *appropriate regulator* considers are adequate having regard to the *liquidity risk* profile of the *firm*.
- Additional guidance for branches**
- 12.9.10 **G** In relation to an *incoming EEA firm* or *third country BIPRU firm*, where the *appropriate regulator* gives that *firm* *individual liquidity guidance* in relation to its *UK branch*, it will have regard to the *liquidity risk* profile of the *branch*. In the absence of a *whole-firm liquidity modification*, the effect of

■ BIPRU 12.2.1R (2)(b) and ■ BIPRU 12.2.3 R is to require the *firm* to hold a liquid assets buffer of the amount identified as appropriate in its *individual liquidity guidance* (or in the case of a *simplified ILAS BIPRU firm*, the amount of its *simplified buffer requirement* unless this has been superseded by the *appropriate regulator* issuing *individual liquidity guidance* to the *firm* in question) in the form of a local operational liquidity reserve. Further guidance is given in ■ BIPRU 12.5.39 G in relation to the local operational liquidity reserve. In determining the appropriate size of such a *firm's* liquid assets buffer the *appropriate regulator* will have regard to all relevant factors, including the extent to which the *appropriate regulator* has adequate data to enable it to assess accurately the *liquidity risk* elsewhere in the *firm* beyond its *UK branch*.

### Regulatory intervention points for ILAS BIPRU firms

- 12.9.11 **G** ■ BIPRU 12.2.9 G records the *appropriate regulator's* recognition that in periods of stress a *firm's* liquid assets buffer may be eroded. It may also be the case that in such periods a *firm's* funding profile deteriorates such that it no longer conforms to the prudent liquidity profile described in the *individual liquidity guidance* given to the *firm*. Deviation by a *firm* from the terms of the *individual liquidity guidance* given to it by the *appropriate regulator* or, as the case may be, from the *simplified buffer requirement*, does not automatically mean that the *appropriate regulator* will consider that the *firm* is in breach of, or likely to breach, *threshold conditions*.
- 12.9.12 **G** The *appropriate regulator* will examine any deviation on its own facts and will always want to understand clearly the reasons for that deviation and the *firm's* plans for remedying it. Deviation is, however, likely to prompt a re-examination by the *appropriate regulator* of the *firm's* compliance, and likely future compliance, with *threshold conditions*. The *appropriate regulator* will have regard to the information provided by the *firm* and to any other relevant factors in assessing the *firm's* continuing ability to satisfy *threshold conditions*. ■ BIPRU 12.9.13 R to ■ BIPRU 12.9.18 R set out a number of requirements which apply to an *ILAS BIPRU firm* that deviates from its *individual liquidity guidance*, or as the case may be, from the *simplified buffer requirement*.
- 12.9.12A **G** The *appropriate regulator* expects that a *firm* will respond dynamically to any deterioration in its liquidity position and will take contingent action as set out in its *contingency funding plan* well in advance of a potential event.
- 12.9.13 **R** As soon as a *firm* becomes aware of the occurrence or expected occurrence of the events identified in ■ BIPRU 12.9.14 R, it must immediately provide to the *appropriate regulator*:
- (1) notification in writing of the event;
  - (2) an adequately reasoned explanation for the event; and
  - (3) an indication of the management actions the *firm* has taken to date to address the event, including actions from its *contingency funding plan*.

- 12.9.14** **R** For the purpose of **■ BIPRU 12.9.13 R**, the events in question are:
- (1) in the case of a *simplified ILAS BIPRU firm* only, breach of the *simplified buffer requirement* unless this has been superseded by *individual liquidity guidance* that it has accepted;
  - (2) in the case of a *standard ILAS BIPRU firm* or a *simplified ILAS BIPRU firm*, being a *firm* which in either case has accepted *individual liquidity guidance* given to it by the *appropriate regulator*:
    - (a) its liquid assets buffer falling below the level advised in the *guidance*; or
    - (b) its funding profile ceasing to conform to that advised in the *guidance*.
- 12.9.15** **G** As part of the *appropriate regulator's* enquiry into the reasons for a *firm's* deviation, or expected deviation, from its *individual liquidity guidance* or, as the case may be, its *simplified buffer requirement*, the *appropriate regulator* may ask for further assessments and analyses of a *firm's* liquidity resources and the risks faced by the *firm*. The *appropriate regulator* may consider the use of its powers under section 166 of the *Act* to assist in such circumstances.
- 12.9.16** **G** Consistent with *Principle 11* of the *appropriate regulator's Principles for Businesses (Relations with regulators)*, if a *firm* has not accepted *individual liquidity guidance* given by the *appropriate regulator* it should, nevertheless, notify the *appropriate regulator* as soon as it becomes aware of either of the events identified in **■ BIPRU 12.9.14R (2)(a)** or **■ (b)**.
- 12.9.17** **R** No later than two *days* after the *day* on which a *firm* notifies the *appropriate regulator* under **■ BIPRU 12.9.13R (1)**, the *firm* must submit a liquidity remediation plan to the *appropriate regulator*.
- 12.9.18** **R** For the purposes of **■ BIPRU 12.9.17 R**, a *firm's* liquidity remediation plan must:
- (1) be communicated in writing;
  - (2) detail the *firm's* forward estimates of the evolution of the size of the *firm's* liquid assets buffer and of its funding profile;
  - (3) in relation to any of the events identified in **■ BIPRU 12.9.14 R** that has occurred, or is expected to occur, detail the actions that the *firm* intends to take to remedy the event, or avoid the expected event, as the case may be, including information about:
    - (a) the amount of funding that it is intended to raise;
    - (b) the intended funding providers; and
    - (c) the maturity profile of the intended funding;
  - (4) identify clear timescales for achieving each of the actions that it details in accordance with **■ BIPRU 12.9.18R (3)**; and

(5) include an adequately reasoned assessment of the likelihood of the timely achievement of the actions that it details in accordance with ■ BIPRU 12.9.18R (3).

**12.9.19** **G** The *appropriate regulator* will assess the adequacy of the liquidity remediation plan submitted by a *firm*, including the likelihood of its success. A *firm* should expect that the *appropriate regulator* will want to discuss the terms of the liquidity remediation plan submitted to it under ■ BIPRU 12.9.18 R. In its re-examination of the *firm's* compliance, and likely future compliance, with *threshold conditions* taken as a whole, the *appropriate regulator* will have regard to the adequacy of the *firm's* liquidity remediation plan.

**12.9.20** **G** Other things being equal, the *appropriate regulator* will expect a *firm* which is not experiencing a period of stress to restore its liquidity resources more rapidly than one which is under stress at the time that it deviates from its *individual liquidity guidance* or, as the case may be, from its *simplified buffer requirement*.

**12.9.21** **G** If agreement through discussion with the *appropriate regulator* cannot be reached as to the necessary actions and timescales to remedy deviation from that *guidance*, the *appropriate regulator* will consider using its powers under the *Act* (for example, its power under section 55J to vary, on its own initiative, a *firm's Part 4A permission* or its *power of intervention* under section 196) so as to require the *firm* to take such actions as the *appropriate regulator* considers are necessary to return the *firm* to conformity with the terms of its *individual liquidity guidance* or, as the case may be, with its *simplified buffer requirement*.

**12.9.22** **G** Although ■ BIPRU 12.9.17 R to ■ BIPRU 12.9.21 G set out the *appropriate regulator's* likely approach, the *appropriate regulator* will take whatever action it considers appropriate in the particular circumstances of a given case.

**12.9.23** **G** A *firm* that deviates from current *individual liquidity guidance* that it has accepted or, as the case may be, from its *simplified buffer requirement*, will be experiencing a *firm-specific liquidity stress* for the purpose of the reporting *rules* in ■ SUP 16 (Reporting requirements). Those *rules* require the *firm* to report specified *data items* more frequently than would otherwise be the case. Additionally, a *firm* that is implementing a liquidity remediation plan should expect that the *appropriate regulator* will wish to monitor its implementation of that plan. The *firm's* progress in achieving the remedial actions identified in its plan is a matter to which the *appropriate regulator* will have regard in considering the *firm's* compliance, and likely future compliance, with *threshold conditions*.

**Monitoring requirement**

**12.9.24** **R** An *ILAS BIPRU firm* must monitor on each *business day* whether it is in conformity with *individual liquidity guidance* that it has accepted or, as the case may be, with the *simplified buffer requirement*.

**Mode of notification**

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- 12.9.25 **R** Notification to the *appropriate regulator* under ■ BIPRU 12.9.13R (1) and submission to the *appropriate regulator* under ■ BIPRU 12.9.17 R must be made to the following *appropriate regulator* email address: data\_collection@fca.org.uk .
- 12.9.26 **G** Although ■ BIPRU 12.9.25 R requires notification and submission in the way prescribed in that *rule*, the *appropriate regulator* expects that a *firm* would also bring to the attention of its usual supervisory contact at the *appropriate regulator* the fact that it had made such a notification or submission.
- 12.9.27 **G** For the purpose of the notification expected under ■ BIPRU 12.9.26 G, the *appropriate regulator* would expect any such notification to be made in the way envisaged in ■ BIPRU 12.9.25 R.