

Chapter 6

Basic liquid assets requirement

6.2 Basic liquid assets requirement

- 6.2.1** **R** A *firm* must hold an amount of *core liquid assets* equal to the sum of:
- (1) one third of the amount of its *fixed overhead requirement*; and
 - (2) 1.6% of the total amount of any guarantees provided to *clients*.
- 6.2.2** **R** Where a *firm* calculates a total amount for guarantees under **■ MIFIDPRU 6.2.1R(2)**, it must calculate:
- (1) the total value of guarantees that the *firm* has outstanding at the end of each *business day*; or
 - (2) an average value for the guarantees that the *firm* has had outstanding over an appropriate time period, which must be updated at regular, appropriate intervals.
- 6.2.3** **G**
- (1) **■ MIFIDPRU 6.2.2R(2)** is intended to allow a *firm* to smooth out its liquidity requirement for guarantees, where the value of its outstanding guarantees fluctuates on a daily basis.
 - (2) An appropriate time period for calculating and updating this amount is likely to be a period that produces an average value that is representative of the overall liquidity risk arising out of the provision of guarantees to *clients*.
- 6.2.4** **G** The approach in **■ MIFIDPRU 6.2.2R(2)** is illustrated by the following example:
- (1) a *firm* that executes orders on behalf of a *client* may guarantee the settlement of any resulting transactions between the *client* and a third party;
 - (2) in this case, it may be appropriate for the *firm* to use the principles for calculating *average COH* to calculate an average value for the guarantees that the *firm* has had outstanding over an appropriate time period;
 - (3) *average COH* is calculated as the arithmetic mean of historic daily *COH* values. The *firm* could use the arithmetic mean of historic daily values for outstanding guarantees to calculate its amount for guarantees;

- (4) *average COH* is calculated by reference to the historic three-month period beginning six *months* ago (i.e. excluding the three most recent *months*). The *firm* could calculate its amount for guarantees by reference to the same time period, if this produces an average value for guarantees that is representative of the overall liquidity risk in these guarantees; and
- (5) a *firm* could update this calculation monthly, in line with the requirement to update *average COH* in ■ MIFIDPRU 4, if this produces a value that is representative of the overall liquidity risk.