

**LIQUIDITY STANDARDS (MISCELLANEOUS AMENDMENTS NO 5)
INSTRUMENT 2012**

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 156 (General supplementary powers); and
 - (3) 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 April 2012.

Amendments to the Handbook

- D. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Liquidity Standards (Miscellaneous Amendments No 5) Instrument 2012.

By order of the Board
21 March 2012

Annex

**Amendments to the Prudential sourcebook for Banks, Building Societies and
Investment Firms (BIPRU)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

12.4 Stress testing and contingency funding

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12.4.16 **G** The FSA expects that a firm's contingency funding plan will encompass a range of actions that the firm might take in anticipation of or in response to changes in its funding position. These changes could result from either firm-specific or general developments. The FSA anticipates that different actions in a contingency funding plan would be taken at different stages of a developing situation.

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12.7 Liquid assets buffer

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12.7.2 **R** For the purpose of satisfying *BIPRU* 12.2.8R, a firm to which this section applies may ~~only~~ include in its liquid assets buffer only:

- (1) high quality debt securities issued by a government or central bank;
- (2) securities issued by a *designated multilateral development bank*;
- (3) reserves in the form of sight deposits with a central bank of the kind specified in *BIPRU* 12.7.5R and *BIPRU* 12.7.6R; and
- (4) in the case of a *simplified ILAS BIPRU firm* only, investments in a *designated money market fund*.

12.7.3 **R** Subject to *BIPRU* 12.7.4R, for the purpose of *BIPRU* 12.7.2R(1), a firm may include only a debt security which is:

- (1) issued by the central government or central bank of an *EEA State*; or
- (2) issued by the central government or central bank of Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

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12.7.5 **R** Subject to *BIPRU* 12.7.6R, for the purpose of *BIPRU* 12.7.2R(3) a firm may include only reserves in the form of sight

deposits held by the *firm* with the central bank of:

- (1) an *EEA State*; or
- (2) Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

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- 12.7.11 R (1) For the purpose of *BIPRU* 12.7.9R(3), a ~~firm~~ *firm* must periodically realise a proportion of the assets in its liquid assets buffer through *repo* or outright sale to the market.
- (2) ~~A *firm* must also ensure that it periodically realises, through the use of central bank liquidity facilities, a proportion of those of its assets which do not fall into *BIPRU* 12.7.2R(1) or *BIPRU* 12.7.2R(2). [deleted]~~
- (3) A *firm* must ensure that in carrying out such periodic realisation:
- (a) it does so without reference to the *firm's* day-to-day liquidity needs;
 - (b) it realises in varying amounts the assets in its liquid assets buffer;
 - (c) the cumulative effect of its periodic realisation over any twelve *month* period is that a significant proportion of the assets in its liquid assets buffer is realised; and
 - (d) ~~in *repo* to the market and central bank or in collateral swap transactions with a central bank,~~ it enters into transactions of varying durations.
- (4) A *firm* must establish and maintain a written policy setting out its approach to periodic realisation of its assets.
- (5) A *firm* must also ensure that it periodically tests its operational ability to raise funds, through the use of central bank liquidity facilities to which it has access, using a proportion of those of its assets not in its liquid assets buffer.

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12.9 Individual liquidity guidance and regulatory intervention points

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- 12.9.12 G ...
- 12.9.12A G The FSA 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 ~~On the occurrence of any~~ As soon as a firm becomes aware of the occurrence or expected occurrence of the events identified in BIPRU 12.9.14R, a firm must as soon as it becomes aware of the event in question it must immediately provide to the FSA:
- (1) ~~notify the FSA~~ notification in writing of the event;
 - (2) ~~provide the FSA with~~ an adequately reasoned explanation for the ~~deviation~~ event; and
 - (3) ~~implement~~ 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 12.9.13R, the events in question are:
- (1) in the case of a *simplified ILAS BIPRU firm* only, ~~breach, or expected 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 FSA:
 - (a) its liquid assets buffer falling, ~~or being expected to fall below,~~ the level advised in the *guidance*; or
 - (b) its funding profile ceasing, ~~or being expected to cease,~~ to conform to that advised in the *guidance*.
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- 12.9.18 R For the purposes of BIPRU 12.9.17R, a *firm's* liquidity remediation plan must:
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- (3) in relation to any of the events identified in BIPRU 12.9.14R that has occurred, ~~or is expected to occur,~~ detail the actions that the *firm* intends to take to remedy the ~~relevant deviation event,~~ or avoid the expected ~~deviation~~ 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;

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