

## Chapter 12

# Liquidity standards

## 12.1 Application

- 12.1.1** **R**
- 12.1.1A** **R** Subject to **■** BIPRU 12.1.2 R, **■** BIPRU 12 applies to:
- (1) an *IFPRU investment firm*; and
  - (2) a *BIPRU firm*.
- 12.1.2** **R** **■** BIPRU 12.5 (Individual Liquidity Adequacy Standards), **■** BIPRU 12.6 (Simplified ILAS), **■** BIPRU 12.7 (Liquid assets buffer) and **■** BIPRU 12.9 (Individual liquidity guidance and regulatory intervention points) apply only to an *ILAS BIPRU firm*.
- 12.1.3** **G** A *firm* that is an An exempt full scope IFPRU investment firm is not an *ILAS BIPRU firm*.
- 12.1.4** **R**
- (1) An exempt full scope IFPRU investment firm is a *full-scope IFPRU investment firm* that at all times has total net assets which are less than or equal to £50 million.
  - (2) In this *rule*, total net assets are the sum of a *firm's* total *trading book* assets and its total *non-trading book* assets, less the sum of its called up share capital, reserves and minority interests.
  - (3) For the purpose of (2), the value attributed to each of the specified balance sheet items must be that which is reported to the FCA in the *firm's* most recent *data item*.
- 12.1.5** **G** The effect of **■** BIPRU 12.1.4R is therefore to require the *firm* to sum the values of cell entries 20A and 20B in *data item* FSA001 and deduct from that total the sum of the values of cell entries 42, 43 and 44 in the same *data item*.
- 12.1.6** **G** There are some provisions in other sections of **■** BIPRU 12 which apply only to an *ILAS BIPRU firm*. Where this is the case, the provision in question says so.

12.1.7

**R**

In relation to an *incoming EEA firm* or a *third country BIPRU firm*, this chapter applies only with respect to the activities of the *firm's UK branch*.

## 12.2 Adequacy of liquidity resources

### The overall liquidity adequacy rule

- 12.2.1 **R** (1) 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.
- (2) For the purpose of (1):
- (a) a *firm* may not include liquidity resources that can be made available by other members of its *group*;
  - (b) an *incoming EEA firm* or a *third country BIPRU firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in ■ BIPRU 12.2.3R;
  - (c) a *firm* may not include liquidity resources that may be made available through emergency liquidity assistance from a central bank (including the European Central Bank).

- 12.2.2 **G** ■ BIPRU 12.2.1R is the *overall liquidity adequacy rule*.

### Branch liquidity resources

- 12.2.3 **R** The conditions to which ■ BIPRU 12.2.1R (2)(b) refers are that the *firm's* liquidity resources are:
- (1) under the day-to-day control of the *UK branch's* senior management;
  - (2) held in an account with one or more *custodians* in the sole name of the *UK branch*;
  - (3) unencumbered; and
  - (4) for the purpose of the *overall liquidity adequacy rule* only, attributed to the balance sheet of the *UK branch*.

- 12.2.4 **G** The effect of ■ BIPRU 12.2.1R (2)(b) and ■ BIPRU 12.2.3 R is to require an *incoming EEA firm* or a *third country BIPRU firm* to maintain a local operational liquidity reserve in relation to the activities of its *UK branch*. ■ BIPRU 12.9 contains further *guidance* on this point.

**Liquidity resources: general**

**12.2.5** **G** For the purposes of the *overall liquidity adequacy rule*, liquidity resources are not confined to the amount or value of a *firm's* marketable, or otherwise realisable, assets. Rather, in assessing the adequacy of those 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. Therefore, for the purposes of that *rule*, 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;
- (3) it maintains a prudent funding profile in which its assets are of appropriate maturities, taking account of the expected timing of that *firm's* liabilities; and
- (4) it is able to generate unsecured funding of appropriate tenor in a timely manner.

**12.2.6** **G** The *overall liquidity adequacy rule* is expressed to apply to each *firm* on a solo basis. Each *firm* must be able to satisfy that *rule* relying solely on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or a *third country BIPRU firm*, compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in **■ BIPRU 12.2.3R**.

**12.2.7** **G** The starting point, therefore, is that each *firm*, or where relevant its *UK branch*, must be self-sufficient in terms of its own liquidity adequacy. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *firm* or *branch* to rely on liquidity support provided by other entities in its *group* or from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind, whether for itself or for its *UK branch*, may only do so with the consent of the *appropriate regulator*, given by way of a *waiver* under section 138A (Modification or waiver of rules) of the *Act* to the *overall liquidity adequacy rule*.

**Liquid assets buffer and funding profile**

**12.2.8** **R** For the purposes of the *overall liquidity adequacy rule*, an *ILAS BIPRU firm* must also ensure that:

- (1) its liquidity resources contain an adequate buffer of high quality, unencumbered assets; and
- (2) it maintains a prudent funding profile.

**12.2.9** **G** The purpose of **■ BIPRU 12.2.8R** is to ensure that an *ILAS BIPRU firm* has a buffer of liquid assets which are available to meet those liabilities which fall due in periods of stress experienced by that *firm*. Those periods of stress may be both market-wide and idiosyncratic in nature. The *appropriate regulator* acknowledges that in periods of stress a *firm's* liquid assets buffer may be eroded.

**12.2.10** **G** The *appropriate regulator* recognises, however, that it may take time for a *firm* to build a buffer which is of a sufficient size and quality to help reduce the effect of periods of stress on the *firm*. In particular, the *appropriate regulator* recognises that the transition from the *appropriate regulator's* liquidity regime in force immediately prior to the ■ BIPRU 12 regime is likely to be a gradual one for many *firms*. The *appropriate regulator* will seek to agree with a *firm* an appropriate period of time over which its liquid assets buffer ought to be built. The *appropriate regulator* will, in any event, incorporate into the *individual liquidity guidance* which it gives to the *firm* details of the steps that it expects the *firm* to take so that it may establish an appropriately robust liquid assets buffer.

**12.2.11** **R** In complying with ■ BIPRU 12.2.8R, a *simplified ILAS BIPRU firm* must ensure that its liquid assets buffer is at least equal to the amount of liquidity resources required by the *simplified buffer requirement*.

**12.2.12** **G** The *appropriate regulator* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of ■ BIPRU 12.2.8R. Further *guidance* on this matter is provided in ■ BIPRU 12.6.5G.

**12.2.13** **G** ■ BIPRU 12.7 contains more detailed *rules* and *guidance* about the type of assets that an *ILAS BIPRU firm* is permitted to hold in order to satisfy ■ BIPRU 12.2.8R.

#### Individual assessments of liquidity adequacy

**12.2.14** **G** The adequacy of an *ILAS BIPRU firm's* liquidity resources needs to be assessed both by that *firm* and by the *appropriate regulator*. This process involves:

- (1) in the case of a *standard ILAS BIPRU firm*, an *Individual Liquidity Adequacy Assessment (ILAA)* which such a *firm* is obliged to carry out in accordance with ■ BIPRU 12.5;
- (2) in the case of a *simplified ILAS BIPRU firm*, an *Individual Liquidity Systems Assessment (ILSA)* which such a *firm* is obliged to carry out in accordance with ■ BIPRU 12.6; and
- (3) a *Supervisory Liquidity Review Process (SLRP)*, which is conducted by the *appropriate regulator*.

**12.2.15** **G** ■ BIPRU 12.5 sets out the *ILAS* framework. That section describes some of the stress tests that a *standard ILAS BIPRU firm* must carry out in conducting its *ILAA* and identifies a number of sources of *liquidity risk* in relation to which a *firm* is required to assess the impact of those stresses. For a *standard ILAS BIPRU firm*, the requirements in ■ BIPRU 12.5 are in addition to the stress testing requirements in ■ BIPRU 12.4. The *rules* in ■ BIPRU 12.5 require a *standard ILAS BIPRU firm* to report the results of both sets of stress tests in its *ILAA*, while the *rules* in ■ BIPRU 12.6 require a *simplified ILAS BIPRU firm* to report those results in its *ILSA*.

- 12.2.16 **G** As part of its *SLRP*, the *appropriate regulator* will, having regard to the *liquidity risk* profile of the *firm*, consider:
- (1) the adequacy, both as to amount and quality, of the liquidity resources (including the liquid assets buffer) held by the *firm*; and
  - (2) the degree of prudence reflected in the *firm's* funding profile.
- 12.2.17 **G** In assessing the adequacy of those resources, the *appropriate regulator* will consider a *firm's* overall ability to generate funding in a way that ensures that it can meet its liabilities as they fall due both in stressed and in ordinary business conditions.
- 12.2.18 **G** After completing a review of the *ILAA* 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 the *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. Although the *appropriate regulator* may have given a *firm individual liquidity guidance*, this does not remove the need for the *firm* to monitor its *liquidity risk* profile on an ongoing basis and to consider whether it should be holding liquidity resources that are greater in amount or higher in quality, or maintaining a more prudent funding profile, than those advised in its *individual liquidity guidance*.
- 12.2.19 **G** ■ BIPRU 12.5 sets out in greater detail the *appropriate regulator's ILAS* regime. ■ BIPRU 12.9 sets out in greater detail the *appropriate regulator's* process for issuing an *ILAS BIPRU firm* with *individual liquidity guidance* and its approach to monitoring a *firm's* adherence to that *guidance* or, as the case may be, to the *simplified buffer requirement*.

## 12.3 Liquidity risk management

- 12.3.1** **G** The approach taken in ■ BIPRU 12.3 is to set out:
- (1) overarching systems and controls provisions in relation to a *firm's* management of its *liquidity risk*;
  - (2) provisions outlining the responsibilities of that *firm's governing body* and *senior managers* for the oversight of *liquidity risk*;
  - (3) more detailed provisions covering a number of specific areas, including:
    - (a) pricing *liquidity risk*;
    - (b) intra-day management of liquidity;
    - (c) management of collateral;
    - (d) management of liquidity across legal entities, business lines and currencies; and
    - (e) funding diversification and market access.
- 12.3.1A** **G**
- 12.3.2** **G** ■ BIPRU 12.4 contains further *rules* and *guidance* on stress testing and *contingency funding plans*. These are both extensions of the overarching systems and controls provisions in ■ BIPRU 12.3. In formulating the *rules* and *guidance* in these two sections, the *appropriate regulator* has taken account of the Principles for Sound Liquidity Management and Supervision dated September 2008 issued by the Basel Committee on Banking Supervision. It is intended that the content of ■ BIPRU 12.3 and ■ BIPRU 12.4 be consistent with those Principles.
- 12.3.3** **G** ■ BIPRU 12.5.4R provides that, in relation to a *standard ILAS BIPRU firm*, it must include in its *ILAA* an assessment of its compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4, including the results of the stress tests required by the *rules* in ■ BIPRU 12.4. A *simplified ILAS BIPRU firm* is not subject to ■ BIPRU 12.5 and consequently it is not required to prepare an *ILAA*. Instead, the *rules* in ■ BIPRU 12.6 provide that such a *firm* is to carry out an *ILSA*, being alone an assessment of that *firm's* compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4.



### Overarching liquidity systems and controls requirements

- 12.3.4** **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 an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines, currencies, *branches* and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.
- [Note: article 86(1) of the CRD]
- 12.3.4A** **G** The strategies, policies, processes and systems referred to in **■ BIPRU 12.3.4 R** should include those which enable it to assess and maintain on an ongoing basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:
- (1) the nature and level of the *liquidity risk* to which it is or might be exposed;
  - (2) the risk that the *firm* cannot meet its liabilities as they fall due; and
  - (3) in the case of an *ILAS BIPRU firm*, the risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources advised as appropriate by the *appropriate regulator* in that *firm's individual liquidity guidance* or, as the case may, its *simplified buffer requirement*.
- 12.3.5** **R** The strategies, policies, processes and systems referred to in **■ BIPRU 12.3.4 R** must be proportionate to the complexity, risk profile and scope of operation of the *firm*, and the liquidity risk tolerance set by the *firm's governing body* in accordance with **■ BIPRU 12.3.8 R**, and must reflect the *firm's* importance in each *EEA State*, in which it carries on business.
- [Note: article 86(2) (part) of the CRD]
- 12.3.5A** **R**
- 12.3.6** **E**
- (1) [deleted]
  - (2) [deleted]
  - (3) A *firm* should ensure that its strategies, policies, processes and systems in relation to *liquidity risk* enable it to identify, measure, manage and monitor its *liquidity risk* positions for:
    - (a) all sources of contingent liquidity demand (including those arising from off-balance sheet activities);
    - (b) all currencies in which that *firm* is active; and
    - (c) correspondent, custody and settlement activities.
  - (4) [deleted]
  - (5) A *firm* should ensure that it has in place early warning indicators to identify immediately the emergence of increased *liquidity risk* or

vulnerabilities, including indicators that signal whether embedded triggers in funding or security arrangements such as warranties, covenants, events of default, conditions precedent or terms having similar effect are likely to, or will, be breached, occur or fail to be satisfied, or contingent risks will or are likely to crystallise, in either case with the result that access to liquidity resources may be impaired.

- (6) A *firm* should ensure that it has 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*.
- (7) Contravention of any of (3), (5) and (6) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

**12.3.7** **G** As well as the *rules* in ■ BIPRU 12.3 requiring a *firm* to have robust systems to enable it to identify, measure, manage and monitor *liquidity risk*, an *ILAS BIPRU firm* is also subject to obligations in ■ SUP 16 (Reporting requirements) requiring it to report quantitative data about its liquidity position to the *appropriate regulator*. That chapter of *SUP* sets out the applicable *data items* and the *rules* governing the frequency of their submission to the *appropriate regulator*. Absent a *firm-specific liquidity stress* or a *market liquidity stress*, the *rules* in ■ SUP 16 do not require daily (weekly for a *low frequency liquidity reporting firm* and a *simplified ILAS BIPRU firm*) reporting of *data items*. An *ILAS BIPRU firm* should, however, note that those *rules* do require that it has systems in place to ensure that it is able at all times to meet the requirements for daily (or weekly as applicable) reporting of applicable *data items* even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

**12.3.7A** **R** A *firm* must, taking into account the nature, scale and complexity of its activities, have liquidity risk profiles that are consistent with and not in excess of those required for a well-functioning and robust system.

[Note: article 86(3) of the *CRD*]

### Governing body and senior management oversight: liquidity risk tolerance

**12.3.8** **R** A *firm* must ensure that:

- (1) its *governing body* establishes that *firm's liquidity risk tolerance* and that this is appropriately documented;
- (2) its *liquidity risk tolerance* is appropriate for its business strategy and reflects its financial condition and funding capacity; and
- (3) its *liquidity risk tolerance* is communicated to all relevant business lines.

[Note: article 86(2) of the *CRD*]

**12.3.8A** **R**

**12.3.9** **G** As part of the *SLRP*, the *appropriate regulator* will assess the appropriateness of the *liquidity risk* tolerance adopted by an *ILAS BIPRU firm* to ensure that this risk tolerance is consistent with maintenance by the *firm* of adequate liquidity resources for the purpose of the *overall liquidity adequacy rule*. The *appropriate regulator* will expect a *firm* to provide it with an adequately reasoned explanation for the level of *liquidity risk* which that *firm's governing body* has decided it should assume. In assessing the appropriateness of the *liquidity risk* tolerance adopted by a *firm*, the *appropriate regulator* will consider whether the tolerance adopted is consistent with the *firm's* satisfaction of threshold condition 2E, 3D, 4E or 5E as applicable. Consistent with the *appropriate regulator's* statutory objectives under the *Act*, in assessing the appropriateness of a *firm's* adopted *liquidity risk* tolerance the *appropriate regulator* will also have regard to the role and importance of a *firm* in the *UK financial system*.

### Governing body and senior management oversight: approval and review of arrangements

**12.3.10** **R** A *firm* must ensure that its *governing body* approves the *firm's* strategies, policies, processes and systems relating to the management of *liquidity risk*, including those described in ■ BIPRU 12.3.4R.

**12.3.11** **R** A *firm* must ensure that its *governing body* reviews regularly (and not less frequently than annually):

- (1) the continued adequacy of any strategies, policies, processes and systems approved in accordance with ■ BIPRU 12.3.10R; and
- (2) the *firm's liquidity risk* tolerance.

**12.3.12** **R** A *firm* must ensure that its *senior managers*:

- (1) continuously review that *firm's* liquidity position, including its compliance with the *overall liquidity adequacy rule*; and
- (2) report to its *governing body* on a regular basis adequate information as to that *firm's* liquidity position and its compliance with the *overall liquidity adequacy rule* and with ■ BIPRU 12.3.4R.

**12.3.12A** **R**

**12.3.13** **G** Although a *firm's senior managers* are likely to develop strategies, policies and practices for the management of that *firm's liquidity risk*, it is the responsibility of a *firm's governing body* to approve those strategies, policies and practices as adequate. In determining the adequacy of those strategies, policies and practices, a *firm's governing body* should have regard to that *firm's liquidity risk* tolerance established in accordance with ■ BIPRU 12.3.8R.

**12.3.14** **G** The *appropriate regulator* will assess the adequacy of an *ILAS BIPRU firm's* *liquidity risk* management framework as part of the *SLRP*.

### Pricing liquidity risk

- 12.3.15 **E** (1) In relation to all significant business activities, a *firm* should ensure that it accurately quantifies liquidity costs, benefits and risks and fully incorporates them into:
- (a) product pricing;
  - (b) performance measurement and incentives; and
  - (c) the approval process for new products.
- (2) For the purposes of (1), a *firm* should ensure that it:
- (a) includes significant business activities whether or not they are accounted for on-balance sheet; and
  - (b) carries out the exercise of quantification and incorporation both in normal financial conditions and under the stresses required by ■ BIPRU 12.4.1R.
- (3) A *firm* should ensure that the liquidity costs, benefits and risks are clearly and transparently attributed to business lines and are understood by business line management.
- (4) Contravention of any of (1), (2) or (3) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

12.3.15A **R**

- 12.3.16 **G** The incorporation of liquidity pricing into a *firm's* processes assists in aligning the risk-taking incentives of individual business lines within that *firm* with the *liquidity risk* to which the *firm* as a whole is exposed as a result of their activities. It is important that all significant business activities are addressed, including activities which involve the creation of contingent exposures which may not have an immediate balance sheet impact.

### Intra-day management of liquidity

- 12.3.17 **R** A *firm* must actively manage its intra-day liquidity positions and any related risks so that it is able to meet its payment and settlement obligations on a timely basis.
- 12.3.18 **G** In complying with ■ BIPRU 12.3.17R, a *firm* should take into account all obligations arising from its acting as a custodian, a correspondent bank or a settlement agent.
- 12.3.19 **R** For the purposes of ■ BIPRU 12.3.17R, a *firm* must ensure that:
- (1) it is able to meet its payment and settlement obligations on a timely basis under both normal financial conditions and under the stresses required by ■ BIPRU 12.4.1R; and
  - (2) its arrangements for the management of intra-day liquidity enable it to identify and prioritise the most time-critical payment and settlement obligations.

12.3.19A **R**12.3.20 **G**

The *appropriate regulator* considers that a *firm's* ability to meet its payment and settlement obligations on an intra-day basis is important not just for that *firm*, but also for the liquidity position of that *firm's* counterparties and for the smooth functioning of payment and settlement systems as a whole.

12.3.21 **E**

- (1) A *firm* should ensure that its intra-day liquidity management arrangements enable it, in relation to the markets in which it is active and the currencies in which it has significant positions, to:
- (a) measure expected daily gross liquidity inflows and outflows, anticipate the intra-day timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;
  - (b) monitor its intra-day liquidity positions against expected activities and available resources;
  - (c) identify gross liquidity inflows and outflows attributable to any correspondent, custodian or settlement agency services provided by that *firm*;
  - (d) manage the timing of its liquidity outflows such that priority is given to that *firm's* most time-critical obligations;
  - (e) deal with unexpected disruptions to its intra-day liquidity flows;
  - (f) acquire sufficient intra-day funding such that it is able to meet its most time-critical obligations when expected and other less time-critical obligations as soon as possible thereafter; and
  - (g) manage and mobilise collateral as necessary for the purposes of achieving the aim in (f).
- (2) Contravention of any of (1)(a) to (g) may be relied upon as tending to establish contravention of **BIPRU 12.3.4R**.

### Management of collateral

12.3.22 **R**

A *firm* must actively manage its collateral positions.

12.3.22A **R**

A *firm* must distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. A *firm* must also take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and must monitor how assets can be mobilised in a timely manner.

[Note: article 86(5) of the *CRD*]

12.3.22B **R**

A *firm* must also have regard to existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets amongst entities, both within and outside the *EEA*.

[Note: article 86(6) of the *CRD*]

## 12.3.23

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For the purposes of ■ BIPRU 12.3.22R, a *firm* must, in relation to all currencies in which it has significant positions and all jurisdictions in which it carries on significant business activities, ensure that it:

- (1) can calculate all of its collateral positions, including assets currently provided as collateral, relative to the total amount of security required;
- (2) can calculate the amount of unencumbered assets available to it to be provided as collateral;
- (3) can mobilise collateral in a timely manner;
- (4) monitors the location of available collateral;
- (5) takes into account the extent to which counterparties with which it has deposited collateral may have re-hypothecated that collateral;
- (6) has access to adequately diversified sources of collateral;
- (7) assesses the eligibility of each major asset class that it holds for use as collateral with central banks;
- (8) assesses on an ongoing basis the acceptability of its assets to major counterparties and providers of funds in secured funding markets; and
- (9) monitors and manages the impact that the terms of existing funding or security arrangements, such as warranties, covenants, events of default, negative pledges and cross default clauses could have on its ability to mobilise collateral including for use in borrowing under any central bank facility (in particular, emergency liquidity assistance on a secured basis).

## 12.3.24

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For the purposes of ■ BIPRU 12.3.23R (8) and ■ (9), a *firm* should take into account the impact of the stresses that it conducts under ■ BIPRU 12.4.1R on the requirements which may be imposed on the provision of its assets as collateral (for example, haircuts) and also the availability of funds from private counterparties during such periods of stress.

## 12.3.24A

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## 12.3.25

E

- (1) A *firm* should ensure that its arrangements for the management of *liquidity risk*:
  - (a) enable it to monitor shifts between intra-day and overnight or term collateral usage;
  - (b) enable it to appropriately adjust its calculation of available collateral to account for assets that are part of a tied hedge;
  - (c) include adequate consideration of the potential for uncertainty around, or disruption to, intra-day asset flows; and
  - (d) take into account the potential for additional collateral requirements under the terms of contracts governing existing

collateral positions (for example, as a result of a deterioration in its own credit rating).

- (2) Contravention of any of (1)(a) to (d) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4 R.

12.3.25A **E**

### Managing liquidity across legal entities, business lines and currencies

12.3.26 **R** In complying with ■ BIPRU 12.3.4 R, a *firm* must ensure that:

- (1) it actively manages its *liquidity risk* exposures and related funding needs; and
- (2) it takes into account:
  - (a) the impact on its own liquidity position of its forming part of a *group*;
  - (b) the need to manage the liquidity position of individual business lines in addition to that of the *firm* as a whole; and
  - (c) the *liquidity risk* arising from its taking positions in foreign currencies; and
- (3) where it forms part of a *group*, it understands and has regard to any legal, regulatory, operational or other constraints on the transferability to it of funds and collateral by other entities in that *group*.

12.3.27 **R** A *firm* must develop methodologies for the identification, measurement, management and monitoring of funding positions. Those methodologies must include the current and projected material cash-flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk.

[Note: article 86(4) of the CRD]

12.3.28 **G** In its *liquidity risk* management plans, a *firm* should identify clearly its assumptions regarding the transferability of funds and collateral. A *firm* should expect that the *appropriate regulator* will scrutinise those assumptions.

### Funding diversification and market access

12.3.29 **R** In complying with ■ BIPRU 12.3.4 R, a *firm* must ensure that it has access to funding which is adequately diversified, both as to source and tenor.

12.3.30 **R** A *firm* must ensure that its *governing body*:

- (1) is aware of the composition, characteristics and degree of diversification of its assets and funding sources; and

- (2) regularly reviews its funding strategy in the light of any changes in the environment in which it operates.

**12.3.31** **G** Funding diversification should not be considered an end in its own right. Rather, the purpose of diversification is to ensure that a *firm* has in place alternative sources of funding that strengthen its capacity to withstand a variety of severe yet plausible institution-specific and market-wide liquidity shocks.

- 12.3.32** **E**
- (1) A *firm* should ensure that funding diversification is taken into account in that *firm's* business planning process.
  - (2) A *firm* should ensure that its funding arrangements take into account correlations between market conditions and the ability to access funds from different sources.
  - (3) A *firm* should ensure that in establishing adequate diversification it sets limits on its funding according to the following variables:
    - (a) maturity;
    - (b) nature of depositor or counterparty;
    - (c) levels of secured and unsecured funding;
    - (d) instrument type;
    - (e) securitisation vehicle;
    - (f) currency; and
    - (g) geographic market.
  - (4) A *firm* should ensure that it maintains an ongoing presence in its chosen funding markets and strong relationships with its chosen providers of funds.
  - (5) A *firm* should regularly test its capacity to raise funds quickly from its chosen funding sources to provide short, medium and long-term liquidity.
  - (6) A *firm* should ensure that its *senior managers* identify the main factors that affect its ability to raise funds and should monitor those factors closely to ensure that their estimates of fund raising capacity remain valid.
  - (7) Contravention of any of (1) to (6) may be relied upon as tending to establish contravention of **■ BIPRU 12.3.4 R**.

#### Asset encumbrance

**12.3.33** **R**

**12.3.34** **R**

**12.3.35** **G**





## 12.4 Stress testing and contingency funding

**12.4.-2** **R** A *firm* must consider different liquidity risk mitigation tools, including a system of limits and liquidity buffers in order to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. Those arrangements must be reviewed regularly.

[Note: article 86(7) of the *CRD*]

### Stress testing

**12.4.-1** **R** A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, as referred to in the *EU CRR*, in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

[Note: article 86(8) of the *CRD*]

**12.4.1** **R** In order to ensure compliance with the *overall liquidity adequacy rule* and with **■ BIPRU 12.3.4R** and **■ BIPRU 12.4.-1 R**, a *firm* must:

- (1) conduct on a regular basis appropriate stress tests so as to:
  - (a) identify sources of potential liquidity strain;
  - (b) ensure that current liquidity exposures continue to conform to the *liquidity risk* tolerance established by that *firm's governing body*; and
  - (c) identify the effects on that *firm's* assumptions about pricing; and
- (2) analyse the separate and combined impact of possible future liquidity stresses on its:
  - (a) cash flows;
  - (b) liquidity position;
  - (c) profitability; and
  - (d) solvency.

**12.4.1A** **R**

- 12.4.1B **G**
- 12.4.2 **R** In accordance with ■ BIPRU 12.3.11R, ■ BIPRU 12.4.-2 R and ■ BIPRU 12.4.-1 R, a *firm* must ensure that its *governing body* reviews regularly the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant to that *firm*.
- 12.4.3 **G** Consistent with ■ BIPRU 12.3.5R, the expects that the extent and frequency of such testing, as well as the degree of regularity of *governing body* review under ■ BIPRU 12.4.2R, should be proportionate to the nature scale and complexity of a *firm's* activities, as well as to the size of its liquidity risk exposures. Consistent with the *appropriate regulator's* statutory objectives under the *Act*, in assessing the adequacy of a *firm's* stress testing arrangements (including their frequency and the regularity of *governing body* review) the *appropriate regulator* will also have regard to the role and importance of that *firm* in the *UK financial system*. The *appropriate regulator* will, however, expect stress testing and *governing body* review to be carried out no less frequently than annually. The *appropriate regulator* expects that a *firm* will build into its stress testing arrangements the capability to increase the frequency of those tests in special circumstances, such as in volatile market conditions or where requested by the *appropriate regulator*.
- 12.4.4 **G** For the purposes of ■ BIPRU 12.4.2R, a review should take into account:
- (1) changes in market conditions;
  - (2) changes in the nature, scale or complexity of the *firm's* business model and activities; and
  - (3) the *firm's* practical experience in periods of stress.
- 12.4.5 **E** (1) [deleted]  
(2) [deleted]
- 12.4.5A **R** A *firm* must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time periods and varying degrees of stressed conditions must be considered.  
[Note: article 86(9) of the *CRD*]
- 12.4.6 **G** The *appropriate regulator* expects every *firm*, including a *firm* with an apparently strong liquidity profile, to consider the potential impact of severe stress scenarios.
- 12.4.7 **G** In conducting its stress testing, a *firm* should also, where relevant, consider the impact of its chosen stresses on the appropriateness of its assumptions relating to:
- (1) correlations between funding markets;

- (2) the effectiveness of diversification across its chosen sources of funding;
- (3) additional margin calls and collateral requirements;
- (4) contingent claims, including potential draws on committed lines extended to third parties or to other entities in that *firm's group*;
- (5) liquidity absorbed by off-balance sheet vehicles and activities (including conduit financing);
- (6) the transferability of liquidity resources;
- (7) access to central bank market operations and liquidity facilities;
- (8) estimates of future balance sheet growth;
- (9) the continued availability of market liquidity in a number of currently highly liquid markets;
- (10) ability to access secured and unsecured funding (including retail *deposits*);
- (11) currency convertibility; and
- (12) access to payment or settlement systems on which the *firm* relies.

## 12.4.8

E

- (1) A *firm* should ensure that the results of its stress tests are:
  - (a) reviewed by its *senior managers*;
  - (b) reported to that *firm's governing body*, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action;
  - (c) reflected in the processes, strategies and systems established in accordance with ■ BIPRU 12.3.4R;
  - (d) used to develop effective *contingency funding plans*;
  - (e) integrated into that *firm's* business planning process and day-to-day risk management; and
  - (f) taken into account when setting internal limits for the management of that *firm's liquidity risk* exposure.
- (2) Contravention of any of (1)(a) to (f) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4 R.

## 12.4.9

R

A *firm* must ensure that the results of its stress tests are reported to the *appropriate regulator* in a timely manner.

### Contingency funding plans

## 12.4.10

R

A *firm* must adjust its strategies, internal policies and limits on *liquidity risk* and develop an effective *contingency funding plan*, taking into account the outcome of the alternative scenarios referred to in ■ BIPRU 12.4.-1 R.

[Note: article 86(10) of the *CRD*]

**12.4.11** **R** A *firm* must have in place liquidity recovery plans setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to *branches* established in another *EEA State*. Those plans must be tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in **■** BIPRU 12.4.-1 R, and be reported to and approved by the *firm's governing body*, so that internal policies and processes can be adjusted accordingly. A *firm* must take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately.

[Note: article 86(11) (part) of the *CRD*]

**12.4.11A** **R** [Note: article 86(11) (part) of the *CRD*]

**12.4.12** **G** A *contingency funding plan* sets out a *firm's* strategies for addressing liquidity shortfalls in emergency situations. Its aim should be to ensure that, in each of the stresses required by **■** BIPRU 12.4.1R, it would still have sufficient liquidity resources to ensure that it can meet its liabilities as they fall due.

**12.4.12A** **G**

**12.4.13** **R** A *firm* must ensure that its *contingency funding plan*:

- (1) outlines strategies, policies and plans to manage a range of stresses;
- (2) establishes a clear allocation of roles and clear lines of management responsibility;
- (3) is formally documented;
- (4) includes clear invocation and escalation procedures;
- (5) is regularly tested and updated to ensure that it remains operationally robust;
- (6) outlines how that *firm* will meet time-critical payments on an intra-day basis in circumstances where intra-day liquidity resources become scarce;
- (7) outlines that *firm's* operational arrangements for managing a retail funding run;
- (8) in relation to each of the sources of funding identified for use in emergency situations, is based on a sufficiently accurate assessment of:
  - (a) the amount of funding that can be raised from that source; and
  - (b) the time needed to raise funding from that source;
- (9) is sufficiently robust to withstand simultaneous disruptions in a range of payment and settlement systems;

- (10) outlines how that *firm* will manage both internal communications and those with its external stakeholders; and
- (11) establishes mechanisms to ensure that the *firm's governing body* and *senior managers* receive management information that is both relevant and timely.

12.4.13A **R**12.4.14 **E**

- (1) In designing a *contingency funding plan* a *firm* should ensure that it takes into account:
  - (a) the impact of stressed market conditions on its ability to sell or securitise assets;
  - (b) the impact of extensive or complete loss of typically available market funding options;
  - (c) the financial, reputational and any other additional consequences for that *firm* arising from the execution of the *contingency funding plan* itself;
  - (d) its ability to transfer liquid assets having regard to any legal, regulatory or operational constraints; and
  - (e) its ability to raise additional funding from central bank market operations and liquidity facilities.
- (2) Contravention of any of (1)(a) to (e) may be relied upon as tending to establish contravention of **BIPRU 12.3.4R**.

12.4.14A **E**12.4.15 **G**

A *firm* should ensure that its *contingency funding plan* takes into account the terms and conditions of any central bank liquidity facilities to which it has access, including both facilities that form part of normal liquidity management operations and emergency liquidity assistance on a secured basis. Where a *firm* includes in its *contingency funding plan* the use of central bank liquidity facilities it should consider the nature of those facilities, collateral eligibility, haircuts to which its collateral might be subject, terms in its existing or available funding arrangements which might impact its ability to access central bank facilities, operational arrangements for accessing those facilities and the potential reputational consequences for that *firm* in accessing them. In formulating its *contingency funding plan*, a *firm* should not rely on expectations it may have about future changes to central bank facilities, either in relation to their normal liquidity management operations or in relation to the availability of specific liquidity facilities in exceptional circumstances.

12.4.16 **G**

The *appropriate regulator* 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 *appropriate regulator* anticipates that different actions in a *contingency funding plan* would be taken at different stages of a developing situation.

12.4.16A **G**

12

## 12.5 Individual Liquidity Adequacy Standards

### Individual Liquidity Adequacy Assessment

- 12.5.1** **R** This section applies to a *standard ILAS BIPRU firm*.
- 12.5.2** **R** A *firm* must carry out an individual liquidity adequacy assessment (*ILAA*) in accordance with this section.
- 12.5.3** **G** In conducting its *ILAA*, a *firm* is obliged to comply with the stress testing and related requirements which appear in this section. The *rules* in this section also provide that in its *ILAA* a *firm* must include an assessment of the *firm's* compliance with the standards set out in **■ BIPRU 12.3** and **■ BIPRU 12.4**.
- 12.5.4** **R** A *firm* must ensure that:
- (1) it regularly carries out an *ILAA*;
  - (2) it makes a written record of its *ILAA*;
  - (3) its *ILAA* is proportionate to the nature, scale and complexity of its activities;
  - (4) its *ILAA* takes into account whole-*firm* and *group*-wide liquidity resources only to the extent that reliance on these is permitted by the *appropriate regulator*;
  - (5) its *ILAA* includes an assessment of the results of the stress tests required by **■ BIPRU 12.5.6 R**; and
  - (6) its *ILAA* includes an assessment of the *firm's* compliance with **■ BIPRU 12.3** and **■ BIPRU 12.4**, including the results of the stress tests required by the rules in **■ BIPRU 12.4**.
- 12.5.5** **G** A *firm* should carry out an *ILAA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that its usual supervisory contact at the *appropriate regulator* will ask for the *ILAA* to be submitted as part of the ongoing supervisory process.

- 12.5.6** **R** A *firm* must ensure that in carrying out its *ILAA* it considers how that *firm's* liquidity resources change as a result of:
- (1) the stress in ■ BIPRU 12.5.8 R (the first liquidity stress);
  - (2) the stress in ■ BIPRU 12.5.11 R (the second liquidity stress); and
  - (3) the first and second liquidity stresses occurring simultaneously.
- ILAA stresses**
- 
- 12.5.7** **G** The *appropriate regulator* will review the results of a *firm's ILAA*, including the results of the stress tests required by ■ BIPRU 12.5.6R, as part of its *Supervisory Liquidity Review Process (SLRP)*. The *appropriate regulator's* review of the stress test results will assist it assessing the adequacy of a *firm's* liquidity resources relative to other *ILAS BIPRU firms* and, consequently, in calibrating the *individual liquidity guidance* that it gives to that *firm*. ■ BIPRU 12.9.2G sets out the *appropriate regulator's* approach to assessing the adequacy of a *firm's* liquidity resources and indicates that, among other factors, it will have regard to the *firm's ILAA*. It is not, therefore, the case that the amount of liquidity resources advised to the *firm* as being adequate in its *individual liquidity guidance* will necessarily equate to the amount needed to meet its liabilities as they fall due in the stresses required by ■ BIPRU 12.5.6R. The *appropriate regulator* will assess the adequacy of a *firm's* liquidity resources on a case-by-case basis and, accordingly, the amount of liquidity resources judged as adequate in the *firm's individual liquidity guidance* might be either above or below the amount needed to survive the stresses required by ■ BIPRU 12.5.6R.
- First liquidity stress**
- 
- 12.5.8** **R** The first liquidity stress to which ■ BIPRU 12.5.6R refers is an unforeseen, name-specific, liquidity stress in which:
- (1) financial market participants and retail depositors consider that in the short-term the *firm* will be or is likely to be unable to meet its liabilities as they fall due;
  - (2) the *firm's* counterparties reduce the amount of intra-day credit which they are willing to extend to it;
  - (3) the *firm* ceases to have access to foreign currency spot and *swap* markets; and
  - (4) over the longer-term the *firm's* obligations linked to its credit rating crystallise as a result of a reduction in that credit rating.
- 12.5.9** **R** For the purpose of ■ BIPRU 12.5.8R (1) to ■ (3), a *firm* must assume that the initial, short-term, period of stress lasts for at least two weeks.
- 12.5.10** **G** For the purpose of ■ BIPRU 12.5.8R (4), a *firm* should consider the effect of credit rating downgrades of varying degrees of severity. In doing so, it should also consider the cumulative effect of successive credit rating downgrades to its long-term credit rating.



**Second liquidity stress**

12.5.11 **R** The second liquidity stress to which ■ BIPRU 12.5.6R refers is an unforeseen, market-wide liquidity stress of three *months* duration.

12.5.12 **R** For the purpose of ■ BIPRU 12.5.11R, a *firm* must assume that the second liquidity stress is characterised by:

- (1) uncertainty as to the accuracy of the valuation attributed to that *firm's* assets and those of its counterparties;
- (2) inability to realise, or ability to realise only at excessive cost, particular classes of assets, including those which represent claims on other participants in the financial markets or which were originated by them;
- (3) uncertainty as to the ability of a significant number of *firms* to ensure that they can meet their liabilities as they fall due; and
- (4) risk aversion among participants in the markets on which the *firm* relies for funding.

**ILAA methodology**

12.5.13 **R** In carrying out the liquidity stresses required by ■ BIPRU 12.5.6R, a *firm* must:

- (1) analyse each of the sources of risk identified in ■ BIPRU 12.5.14R;
- (2) record the evidence which supports any behavioural assumptions that it makes in carrying out those stress tests;
- (3) record the evidence which supports its assessment of the adequacy of its liquid assets buffer; and
- (4) identify those of the measures set out in its *contingency funding plan* that it would implement.

12.5.14 **R** The sources of risk referred to in ■ BIPRU 12.5.13R are:

- (1) wholesale secured and unsecured funding risk;
- (2) retail funding risk;
- (3) intra-day *liquidity risk*;
- (4) intra-group *liquidity risk*;
- (5) cross-currency *liquidity risk*;
- (6) off-balance sheet *liquidity risk*;
- (7) franchise-viability risk;
- (8) marketable assets risk;

- (9) non-marketable assets risk; and
- (10) funding concentration risk.

### Wholesale secured and unsecured funding risk

- 12.5.15** **R** For the purpose of assessing its wholesale funding risk, a *firm* must estimate the gross wholesale outflows that could occur under the liquidity stresses required by **■** BIPRU 12.5.6R.
- 12.5.16** **R** In assessing its wholesale funding risk, a *firm* must:
- (1) identify its wholesale liabilities;
  - (2) determine how those liabilities behave under normal financial conditions;
  - (3) assess how they will behave under the stresses required by **■** BIPRU 12.5.6R; and
  - (4) divide its wholesale liabilities into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness (Type A wholesale funding) and other funding (Type B wholesale funding).
- 12.5.17** **G** In assessing how its liabilities behave under stress, the *firm* should categorise its liabilities according to value, maturity and estimated speed of outflow. The *firm* should bear in mind that wholesale funding risk may crystallise as an acute loss of funds in the short term, or as a longer-term gradual leakage of funds, or as both.
- 12.5.18** **G** In the *appropriate regulator's* view, Type A wholesale funding is likely to include at least funding which:
- (1) is accepted from a *credit institution*, local authority, *insurance undertaking*, pension fund, money market fund, asset manager (including a hedge fund manager), government-sponsored agency, sovereign government, or sophisticated non-financial corporation; or
  - (2) is accepted through the treasury function of a sophisticated non-financial corporation which may be assumed to respond swiftly to negative news about a *firm's* credit-worthiness; or
  - (3) is accepted on wholesale market terms as a part of a *firm's* money market operations; or
  - (4) is accepted from a depositor with whom a *firm* does not have a long-established relationship or to whom a *firm* does not supply a range of services; or
  - (5) is accepted from overseas counterparties (other than those in the country or territory of incorporation of a *firm's parent undertaking* or, in the case of a *UK branch*, of the *firm* of which it forms part); or

- (6) is obtained through unsecured debt instruments (such as certificates of deposit, medium-term notes and commercial paper); or
- (7) is not obtained through *repo* against assets of the type described in ■ BIPRU 12.7.2R (1) or ■ BIPRU 12.7.2R (2); or
- (8) is obtained from counterparties with a relatively low creditor seniority on the liquidation of the *firm*.

12.5.19 **R** For the purpose of ■ BIPRU 12.5.15R, a *firm* must assume that it is unable to roll any of its Type A wholesale funding in the first two weeks of the stresses.

### Retail funding risk

12.5.20 **R** In this part of ■ BIPRU 12.5, retail funding is funding that is accepted from a *consumer*.

12.5.21 **R** For the purpose of assessing its retail funding risk, a *firm* must:

- (1) estimate the gross retail outflows that could occur under the liquidity stresses required by ■ BIPRU 12.5.6R;
- (2) identify the stress, or combination of stresses, to which it considers its retail funding to be most vulnerable and estimate the gross retail outflows that could occur under that stress or combination of stresses; and
- (3) divide its retail funding into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness (Type A retail funding) and other funding (Type B retail funding).

12.5.22 **G** In general, the *appropriate regulator* expects a *firm's* retail funding to be less responsive than its wholesale funding to actual or perceived changes in the *firm's* credit-worthiness. However, a *firm* should nevertheless make its own assessment of the relative responsiveness of its wholesale and retail funding.

12.5.23 **G** For the purposes of assessing behaviour under stress, a *firm* should categorise its retail liabilities according to: value, maturity, estimated speed of outflow, product type, interest rate applied and any other factor that it considers relevant to its retail *deposit* structure.

12.5.24 **G** A *firm* should also be mindful that its retail funding profile is unlikely to be constant. In carrying out its *ILAA*, a *firm* should have regard to any changes to its retail funding profile since the previous *ILAA* and also to the possible impact of any future changes on its ability to maintain retail funding during periods of stress. In its *ILAA* submission to the *appropriate regulator*, a *firm* should include an analysis of:

- (1) its retail funding profile as at the date of its *ILAA*;

- (2) its retail funding profile over the twelve *months* preceding its *ILAA*;
- (3) its projected retail funding profile over the twelve *months* following the date of its *ILAA*; and
- (4) its approach to assessing which of its retail funding it has classed as Type A retail funding and which as Type B retail funding.

**12.5.25** **G** In the *appropriate regulator's* view Type A retail funding is likely to include at least funding which:

- (1) has been accepted through the internet; or
- (2) is considered to have a more than average sensitivity to interest rate changes (such as a *deposit* whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or
- (3) in relation to any individual depositor exceeds to a significant extent the amount of that individual's *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or
- (4) is not accepted from a depositor with whom the *firm* has had a long relationship; or
- (5) is accepted from retail depositors who can access their *deposits* before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or
- (6) is not held in an account which is maintained for transactional purposes.

#### **Intra-day liquidity risk**

**12.5.26** **R** For the purpose of assessing its intra-day *liquidity risk* arising from its direct participation in a payment or settlement system, a *firm* must in relation to each such system in which it participates:

- (1) calculate on an intra-day basis the net amounts of collateral and cash required by that *firm* to fund participation in that system; and
- (2) estimate how the amounts in (1) could change under the liquidity stresses required by ■ BIPRU 12.5.6 R.

**12.5.27** **G** For the purpose of calculating the net amounts of collateral and cash under ■ BIPRU 12.5.26R, a *firm* should separately analyse:

- (1) the amounts of collateral and cash needed in relation to both its own payments and those of its customers; and

- (2) the intra-day timing of the payment of cash and the posting of the collateral, including the time at which the demand for its collateral and cash is greatest.
- 12.5.28** **G** For the purpose of ■ BIPRU 12.5.26R, a *firm* should ensure that it takes into account, in both normal financial conditions and in periods of stress, the effect of:
- (1) other participants in a payment system withholding some or all of the payments expected from them; and
  - (2) its customers increasing either or both the volume and value of their payments.
- 12.5.29** **R** At the same time as it carries out the calculation and estimation in ■ BIPRU 12.5.26 R, a *firm* which participates directly in one or more payment or settlement systems must also estimate the impact on its liquidity position of the customer to which it has the largest intra-day credit exposure defaulting on its payment obligations to the *firm*:
- (1) under normal financial conditions; and
  - (2) under the stresses required by ■ BIPRU 12.5.6 R.
- 12.5.30** **G** For the purpose of ■ BIPRU 12.5.29R, a *firm* should assume that the effect of that default is that the exposure is rolled overnight.
- 12.5.31** **R** A *firm* must, as part of its *ILAA* submission to the *appropriate regulator*:
- (1) identify those payment and settlement systems in which it is a direct participant; and
  - (2) provide details of the intra-day credit policies that it applies, including the criteria against which it sets credit limits, when extending credit to a customer which is not a direct participant in the payment or settlement system in question.
- 12.5.32** **G** For the purpose of ■ BIPRU 12.5.31R, the *appropriate regulator* would expect a *firm*, in relation to each payment or settlement system in which it participates directly, to provide details of:
- (1) that *firm's* charges for providing intra-day credit;
  - (2) any collateral requirements which it applies to its customers;
  - (3) the credit limits that it imposes (and the circumstances, if any, in which credit may be provided notwithstanding a limit breach);
  - (4) the extent to which the customers of that *firm* make use of the credit extended to them; and

- (5) where relevant, the points during the day at which a customer is required to settle, or provide assets as collateral to cover, that *firm's* credit exposure to it.

12.5.33 **R** ■ BIPRU 12.5.34R applies to a *firm* which:

- (1) is not a direct participant in a given payment or settlement system;
- (2) is a customer of a *firm* that is a direct participant in such a system for the purposes of gaining access to that system; and
- (3) receives intra-day credit from that participant *firm* or prefunds its account with such a *firm*.

12.5.34 **R** For the purpose of assessing its intra-day *liquidity risk* a *firm* to which ■ BIPRU 12.5.33R applies must assess the effect on its own position of a participant *firm* from which it receives intra-day credit or with which it has a prefunded account being unable to perform its obligations to that *firm*:

- (1) under normal financial conditions; and
- (2) under the stresses required by ■ BIPRU 12.5.6 R.

12.5.35 **G** As part of its *ILAA* submission to the *appropriate regulator*, a *firm* to which ■ BIPRU 12.5.33R applies should include:

- (1) details of any alternative arrangements that it has in place to ensure that it continues to be able to meet its liabilities as they fall due in the circumstances set out in ■ BIPRU 12.5.34R; and
- (2) details of the policies governing the use of intra-day credit provided to it by a *firm* which is a direct participant in a given payment or settlement system, including details of the criteria against which that participant will decide whether to reduce or cease the provision of intra-day credit.

### Intra-group liquidity risk

12.5.36 **R** Where a *firm* has an *intra-group liquidity modification* permitting it to rely on liquidity from other members of its *group* in order to satisfy the *overall liquidity adequacy rule*, or may be exposed to calls on its own liquidity resources from others in its *group*, then in assessing its *intra-group liquidity risk* it must:

- (1) take into account:
  - (a) the extent to which it and other entities in its *group* have access to central bank funding;
  - (b) in relation to any *group* entity on which a *firm* relies for liquidity support, the legal and regulatory regime to which that entity is subject, in particular that covering liquidity regulation; and
  - (c) the contractual arrangements governing any agreed forms of *intra-group* liquidity support (including committed funding lines); and

(2) assume that in periods of stress, *group* entities will not repay loans or *deposits* made by the *firm* to them, but that the *firm* will meet its liabilities that fall due to other *group* entities during the period of the relevant stress.

**12.5.37** **G** For the purpose of ■ BIPRU 12.5.36R, a *firm* should consider the full range of legal and regulatory restrictions on the availability to it of liquidity support from other members of its *group*. A *firm* should ensure that it understands restrictions in force in other jurisdictions, as well as the potential for such restrictions to be imposed in the future, as to the allowable size of intra-*group* exposures. A *firm* should also consider the circumstances in which it may find itself obliged to transfer liquidity resources to other entities in its *group*.

**12.5.38** **R** In relation to an *incoming EEA firm* or *third country BIPRU firm* which does not have a *whole-firm liquidity modification*, that *firm* must assess the risk that its *UK branch* may be exposed to calls on liquidity under its control from its head office:

- (1) in normal financial conditions; and
- (2) under the liquidity stresses required by ■ BIPRU 12.5.6 R.

**12.5.39** **G** In complying with ■ BIPRU 12.5.38R a *firm* is therefore assessing its exposure to inter-office *liquidity risk*, rather than intra-*group liquidity risk*. It is the *appropriate regulator's* assessment of the *firm's* inter-office *liquidity risk* that is one of the factors that will inform the *appropriate regulator's* decision as to the appropriate size for the *firm's* local operational liquidity reserve (as described in ■ BIPRU 12.2).

### Cross-currency liquidity risk

**12.5.40** **R** For the purpose of assessing its cross-currency *liquidity risk*, a *firm* must:

- (1) in relation to each currency in which it has significant positions, calculate its gross outflows and gross inflows having regard to their respective maturities;
- (2) where it identifies a net outflow in (1), assess how it will fund that outflow; and
- (3) estimate how the amounts in (1) and the assessment in (2) could change under the liquidity stresses required by ■ BIPRU 12.5.6R.

**12.5.41** **R** A *firm* must, as part of its *ILAA* submission to the *appropriate regulator*, in relation to each currency in which it has significant positions:

- (1) identify the type of financial instruments which that *firm* uses to raise funding in that currency;
- (2) identify the main counterparties which provide funding to that *firm* in that currency; and

- (3) describe the arrangements that it has in place to fund net outflows in that currency on a timely basis.

### Off-balance sheet liquidity risk

- 12.5.42** **R** For the purpose of assessing its off-balance sheet *liquidity risk*, a *firm* must:
- (1) identify all off-balance sheet activities that might affect its cash flows;
  - (2) calculate the effect on its cash flows of those activities in normal financial conditions; and
  - (3) estimate the effect on its cash flows of those activities under the liquidity stresses required by **■ BIPRU 12.5.6R**.
- 12.5.43** **R** For the purpose of **■ BIPRU 12.5.42R**, a *firm* must take into account the circumstances in which it may choose to provide liquidity support in respect of its off-balance sheet activities beyond its contractual obligations (if any) to do so.
- 12.5.44** **R** For the purpose of **■ BIPRU 12.5.42R**, a *firm* must in particular consider the impact on its cash flows of:
- (1) *derivatives* positions;
  - (2) contingent liabilities;
  - (3) commitments given; and
  - (4) liquidity facilities to support securitisation programmes.
- 12.5.45** **G** In relation to *derivatives* positions, a *firm* should:
- (1) assess the effect on its cash flows arising from the maturity, exercise and repricing of *derivatives* in which it holds a position, including the impact of counterparties:
    - (a) who may require the posting of additional margin or collateral in the event of a decline in that *firm's* credit rating;
    - (b) who may require the posting of additional margin or collateral (or the return to them of margin or collateral) in the event of a change in the value of a *derivative* or of the posted collateral;
    - (c) who (in the case of those that are any of a *recognised investment exchange*, a *designated investment exchange* or a *recognised clearing house*) may require the posting of additional margin in volatile market conditions;
    - (d) who may choose to terminate an *OTC derivative* which they have entered into with the *firm* rather than post additional margin or collateral;
    - (e) who, in periods of name-specific liquidity stress experienced by the *firm*, may choose to terminate out of the money *derivatives* which they have entered into with that *firm*; and



- (f) who, in periods of stress, may choose to post less liquid collateral than would likely be the case in normal financial conditions; and
- (2) assume that under the stresses required by ■ BIPRU 12.5.6 R there may be uncertainty as to the accuracy of the valuation attributed to a *derivative* contract.
- 12.5.46** **G** In relation to its contingent liabilities, a *firm* should:
- (1) calculate the impact on its cash flows of those of its contingent obligations that will be triggered in normal financial conditions; and
- (2) estimate the impact on its cash flows of those of its contingent obligations that may be triggered under the liquidity stresses required by ■ BIPRU 12.5.6 R.
- 12.5.47** **G** For the purpose of ■ BIPRU 12.5.46G, a *firm* should therefore assess the impact on its cash flows of the triggering of contingent obligations contained in all contractual documentation to which it is party, including: acceptances, endorsements, guarantees, underwriting agreements, standby letters of credit, documentary credits, warrants, indemnities, undrawn note issuance facilities and other revolving credit facilities. A *firm* should also assess the degree of concentration in its total contingent liabilities as respects obligations arising from particular types of contract, counterparty and market sector.
- 12.5.48** **G** In relation to its commitments (other than liquidity facilities to support securitisation programmes)), a *firm* should:
- (1) calculate its maximum contractual exposure arising from those commitments;
- (2) calculate the effect on its cash flows of the drawing of those commitments in normal financial conditions; and
- (3) estimate the effect on its cash flows of the drawing of those commitments under the liquidity stresses required by ■ BIPRU 12.5.6 R.
- 12.5.49** **G** For the purpose of ■ BIPRU 12.5.48G, a *firm* should:
- (1) consider its contractual exposure to the following types of commitment: committed funding facilities, undrawn loans and advances to wholesale counterparties, mortgages that have been agreed but not yet been drawn down, credit cards, overdrafts (and other retail lending facilities);
- (2) ensure that its analysis of each type of commitment is sufficiently granular to enable that *firm* to:
- (a) assess the circumstances in which counterparties will draw down;
- (b) identify the extent of any correlations as between counterparties in deciding whether or not to draw down;

- (c) identify the extent to which decisions by the *firm's* counterparties to draw down may be correlated to a decline in the *firm's* own liquidity resources; and
  - (d) assess the proportion of its total commitments attributable to particular counterparties; and
- (3) assess the extent to which draw down requires the counterparty in question to deliver to the *firm* collateral in the form of marketable assets, while also assessing the anticipated effect of such a requirement on:
- (a) the likelihood that the counterparty in question will draw down; and
  - (b) the *firm's* liquidity position if the counterparty in question delivers collateral on draw down; and
- (4) assess the impact on its cash flows of its commitment counterparties experiencing liquidity stress at the same time as that *firm* is subject to the stresses required by ■ BIPRU 12.5.6 R.

**12.5.50** G In relation to liquidity facilities to support securitisation programmes, a *firm* should:

- (1) assess the extent of its contractual obligations to provide liquidity support to sponsored and third-party structured vehicles;
- (2) identify the circumstances in which support will, or is likely to, be called; and
- (3) assess the impact on that *firm's* cash flows of such support being called:
  - (a) in normal financial conditions; and
  - (b) under the liquidity stresses required by ■ BIPRU 12.5.6R.

**12.5.51** G For the purpose of ■ BIPRU 12.5.50G (2), a *firm* should consider the impact of the following events on the likelihood of a call for liquidity support: inability of a vehicle to roll over commercial paper (due either to disruption in the CP market or to concern as to the quality of the assets securitised) and, in relation to sponsored vehicles, concern as to the solvency of that *firm* as sponsor and, separately, the possibility of draw down of undrawn commitments entered into by the sponsored vehicle in its own right.

**Franchise-viability risk**.....

**12.5.52** R For the purposes of assessing its franchise-viability risk, a *firm* must assess, under the liquidity stresses required by ■ BIPRU 12.5.6 R, the liquidity resources required to maintain its core business franchise and reputation.

**12.5.53** G Franchise-viability risk is the risk that in the stresses required by ■ BIPRU 12.5.6R a *firm* may not have sufficient liquidity resources to maintain its core business franchise and reputation.

- 12.5.54** **G** In complying with **■ BIPRU 12.5.52R**, a *firm* should assess the extent to which it can and realistically will:
- (1) restrict new retail lines without significantly damaging customer relationships;
  - (2) restrict new wholesale lending without significantly damaging its ability to resume such lending following the period of stress in question;
  - (3) cease to provide liquidity support to its sponsored vehicles;
  - (4) decline to exercise call *options* whose effect if not exercised might be to cause market participants to question the *firm's* ability to continue to meet its liabilities as they fall due; and
  - (5) continue any regular programme of buying back its issued debt.
- 12.5.55** **G** For the purpose of **■ BIPRU 12.5.54G (5)**, a *firm* may wish to continue repurchasing its debt to help demonstrate that a two-way market continues to be made in its paper and, more generally, in order to maintain the long-term viability of its debt issuance programme. Equally, a *firm* may wish to continue repaying retail depositors before the contractual maturity of those *deposits* in order to maintain confidence in its ability to continue to meet its liabilities as they fall due.
- Marketable assets risk** .....
- 12.5.56** **R** For the purpose of assessing its exposure to marketable assets risk, a *firm* must assess how the marketable assets comprised in its liquidity resources will behave:
- (1) under normal financial conditions; and
  - (2) under the liquidity stresses identified in **■ BIPRU 12.5.6R**, including an assessment of the effect of these stresses on:
    - (a) its ability to derive funding from its marketable assets in a timely fashion;
    - (b) the potential for using those assets as collateral to raise secured funding and the size of the haircut likely to be required by a counterparty;
    - (c) the likelihood and extent of forced-sale loss; and
    - (d) the effect on its business activities of any changes in (a) to (c) identified as likely to result from those liquidity stresses.
- 12.5.57** **G** In complying with **■ BIPRU 12.5.56R**, a *firm* should consider all marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*. A *firm* should therefore include in this assessment any assets that it holds in its liquid assets buffer.
- 12.5.58** **G** The *appropriate regulator* regards as marketable those of a *firm's* assets that it is able to sell outright or *repo*. For liquidity management purposes, a *firm*

would ordinarily expect to hold a stock of assets of this kind in order to reduce the likelihood that it may need to borrow unsecured at short notice. To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to marketable assets risk.

**12.5.59** **G** As a general proposition, the speed with which a *firm* may be able to realise a marketable asset, and the price impact of doing so, will depend to a significant extent on the volume of those assets which that *firm* wishes to realise and the market conditions prevailing at the time.

**12.5.60** **G** The behaviour of a *firm's* marketable assets under conditions of stress is likely to depend on a number of different factors, including:

- (1) the depth and competitiveness of the market for the marketable asset in question, the size of the bid-offer spread, the presence of committed market-makers, the nature of the information available to potential counterparties, the degree of structural complexity of the assets in question and the assets eligibility in central bank market operations and liquidity facilities; and
- (2) that *firm's* operational capability to generate funding from those assets in a timely manner.

**12.5.61** **G** In considering its operational capability to generate funding from assets, a *firm* should be aware that its capability in this regard is likely to depend on:

- (1) whether it has in place arrangements for *repo*;
- (2) the extent to which that *firm* already holds a significant proportion of the market for the marketable asset in question;
- (3) the extent to which that *firm* periodically realises some or all of its holdings of that asset; and
- (4) that *firm's* accounting treatment and valuation of that asset.

**12.5.62** **R** For the purpose of its *ILAA* submission to the *appropriate regulator*, a *firm* must provide the *appropriate regulator* with an analysis of the profile of its marketable assets as at the date of submission in a way that:

- (1) separately identifies its marketable assets according to asset class, maturity, currency, their eligibility for use in central bank monetary operations and liquidity facilities and any other characteristic that it uses in its liquidity management; and
- (2) assesses the degree of diversification achieved across its marketable assets.

### Non-marketable assets risk

- 12.5.63** **R** For the purpose of assessing its exposure to non-marketable assets risk, a *firm* must assess how the non-marketable assets in its liquidity resources will behave:
- (1) under normal financial conditions; and
  - (2) under the liquidity stresses required by **■ BIPRU 12.5.6 R**, including an assessment of the effect of these stresses on:
    - (a) the *firm's* ability to derive funding from its non-marketable assets; and
    - (b) the impact on the *firm's* liquidity position of any consequences for its funding ability identified in (a).
- 12.5.64** **G** In complying with **■ BIPRU 12.5.63R**, a *firm* should consider all non-marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*.
- 12.5.65** **G** **■ BIPRU 12.2.5 G** notes that a *firm* should include in its liquidity resources sufficient assets which are marketable or otherwise realisable. The *appropriate regulator* considers those assets which are capable of realisation, but other than through *repo* or outright sale, as non-marketable assets. To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to non-marketable assets risk. Different forms of non-marketable assets risk arise, particularly in relation to:
- (1) retail loans; and
  - (2) unsecured wholesale assets.
- 12.5.66** **G** In addition to realising a *firm's* marketable assets, a *firm* can meet its outflows in part by expected inflows from maturing non-marketable assets such as retail loans. Inflows from these assets (principal and interest) may in stressed conditions be affected by counterparty behaviour, exposing that *firm* to non-marketable assets risk.
- 12.5.67** **R** For the purpose of assessing its exposure to non-marketable assets risk a *firm* must assess the extent to which the behaviour of inflows from retail loans under the liquidity stresses required by **■ BIPRU 12.5.6R** may differ from that suggested by their contractual terms.
- 12.5.68** **G** For the purpose of the assessment in **■ BIPRU 12.5.67R**, a *firm* should ensure that it assesses repayment behaviour at a level of granularity sufficient to enable it to draw informed conclusions about its liquidity exposure. The *appropriate regulator* would expect a *firm's* assessment to analyse separately the non-marketable assets risk associated with each of its relevant products and with each type of counterparty from whom it is expecting repayments.

- 12.5.69 **G** For the purpose of the assessment in ■ BIPRU 12.5.67R, a *firm* should in particular have regard to the risk associated with:
- (1) repayment defaults; and
  - (2) exercise by its counterparties of contractual rights to repay before the expected maturity date or to delay repayment beyond that date.
- 12.5.70 **G** A *firm* may also use its unsecured wholesale assets to generate liquidity, otherwise than by outright sale or *repo*. A *firm* may, for example, choose to generate funding from some of the assets included in its liquidity resources by using them in securitisation or covered bond programmes. Assets that are typically used to raise liquidity in this manner include residential mortgage loans; commercial mortgage and other loans; credit card and automobile receivables, which have been packaged for the wholesale markets. To the extent that the ability to fund from these non-marketable assets may be limited under stressed conditions, a *firm* may be exposed to non-marketable assets risk.
- 12.5.71 **G** The assessment required by ■ BIPRU 12.5.63R is particularly important for a firm which:
- (1) ordinarily does not raise funding from its non-marketable assets in this way; or
  - (2) places proportionately greater reliance on securitisation programmes as compared to other funding strategies to generate liquidity.
- 12.5.72 **R** In complying with ■ BIPRU 12.5.63R, a *firm* must in particular assess the non-marketable assets risk associated with asset securitisations, having regard to:
- (1) the existence of early amortisation triggers and the consequences of their operation; and
  - (2) its financing of assets which are warehoused prior to their securitisation.
- 12.5.73 **G** A *firm* which chooses to warehouse assets in the way described in ■ BIPRU 12.5.72R should consider the particular risks that arise from the method of financing that it uses to pre-fund those assets. For example, financing of warehoused assets by means of short-term (rather than long-term) funding is more likely to put that *firm* under liquidity pressure in the event that its proposed securitisation is not completed (either at all, or at the expected date).
- Funding concentration risk** .....
- 12.5.74 **G** A *firm* with a sufficiently flexible funding strategy should be able to reduce its *liquidity risk* by diversifying its liquidity resources.

- 12.5.75 **R** As part of its *ILAA*, a *firm* must assess the impact on the degree of diversification in its liquidity resources of the stresses required by ■ BIPRU 12.5.6R.
- 12.5.76 **G** For the purpose of ■ BIPRU 12.5.75R, a *firm* should take into account the extent to which its liquidity resources are diversified according to:
- (1) type of instrument and product;
  - (2) currency;
  - (3) counterparty;
  - (4) liability term structure; and
  - (5) market for their realisation (provided that such market is open to the *firm* as counterparty).
- 12.5.77 **G** A *firm* should be aware that the degree of diversification in its liquidity resources can be compromised, particularly in periods of stress, by a number of factors, including:
- (1) reduced or terminated funding provision from some counterparties as a result of that *firm's* credit-rating being downgraded or its financial condition deteriorating;
  - (2) disputes over the terms of legally binding commitments to lend which delay the provision of funding;
  - (3) markets previously used by the *firm* for raising funding ceasing to be open or operating but at reduced capacity;
  - (4) reliance on a small number of brokers to access funding sources; and
  - (5) positive correlations in the behaviour of different instruments and products.

## 12.6 Simplified ILAS

- 12.6.1** **G** The *appropriate regulator* recognises that it may not always be appropriate to apply **■** BIPRU 12.5 (Individual Liquidity Adequacy Standards) to every *ILAS BIPRU firm*. For a *firm* which operates a relatively simple business model, it may instead be appropriate to allow the *firm* to calculate the size and content of its liquid assets buffer according to a simplified approach prescribed in the *Handbook* in advance of any review of that *firm's liquidity risk* conducted by the *appropriate regulator*. This section sets out the *simplified ILAS* approach to maintaining a liquid assets buffer and a *firm* that operates that approach is a *simplified ILAS BIPRU firm*.
- 12.6.2** **R** An *ILAS BIPRU firm* that wishes to operate the *simplified ILAS* approach must:
- (1) satisfy the conditions in **■** BIPRU 12.6.6R to **■** BIPRU 12.6.8R; and
  - (2) obtain a *simplified ILAS waiver* from the *appropriate regulator*.
- 12.6.3** **G** A *firm* will therefore lose the benefit of its *simplified ILAS waiver* if it ceases to satisfy the conditions in **■** BIPRU 12.6.6R to **■** BIPRU 12.6.8R. Consistent with *Principle 11* (Relations with regulators), if a *firm* anticipates that it may breach those conditions, it should notify the *appropriate regulator* promptly.
- 12.6.4** **R** A *simplified ILAS BIPRU firm* must calculate the size of its *simplified buffer requirement* in accordance with **■** BIPRU 12.6.9R to **■** BIPRU 12.6.18R.
- 12.6.5** **G** The *appropriate regulator* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of **■** BIPRU 12.2.8R. However, the *simplified ILAS* approach does not relieve a *simplified ILAS BIPRU firm* from the obligation to hold liquidity resources which are adequate for the purpose of meeting the *overall liquidity adequacy rule* or from the obligation in **■** BIPRU 12.3.4R to assess and maintain on an ongoing basis the adequacy of its liquidity resources. Consequently, where a *firm's* own assessment of the adequacy of its liquidity resources indicates that its liquid assets buffer should be larger in size than that produced by the application of the *simplified buffer requirement*, the *appropriate regulator* will expect that *firm* to maintain a liquid assets buffer which is consistent with the results of its own assessment. Equally, following any review by the *appropriate regulator* of the *liquidity risk* to which a *simplified ILAS BIPRU firm* is exposed, the *appropriate regulator* may give



that *firm individual liquidity guidance* advising it that its liquid assets buffer should be bigger than that which is produced by the application of the *simplified buffer requirement*.

### Simplified ILAS conditions

#### 12.6.6

**R**

The first condition is that:

- (1) no less than 75% of the *firm's* total liabilities are accounted for by retail *deposits* and:
  - (a) the *firm's* total assets do not exceed 250 million; or
  - (b) the *firms* total assets do not exceed 1 billion and no less than 70% of those assets are accounted for by:
    - (i) assets of the kind that fall into ■ BIPRU 12.7.2 R and which the *firm* counts towards its *simplified buffer requirement*; and
    - (ii) retail loans; or
  - (c) no less than 70% of the *firm's* total assets are accounted for by retail loans; or
  - (d) no less than 70% of the *firm's* total assets are accounted for by:
    - (i) *money-market instruments* with a residual contractual maturity of three *months* or less; or
    - (ii) sight *deposits* held with a *credit institution*; or
    - (iii) term *deposits* with a residual contractual maturity of three *months* or less held with a *credit institution*; or
- (2) no less than 80% of the *firm's* total liabilities are accounted for by liabilities owed to its *parent undertaking* and the amount of the *firm's* total assets does not exceed 1 billion.
  - (a) [deleted]
  - (b) [deleted]
  - (c) [deleted]
- (3) [deleted]

#### 12.6.6A

**R**

For the purpose of ■ BIPRU 12.6.6 R, a *firm* must calculate:

- (1) its total assets by reference to its most recent *FSA001 data item*; and
- (2) its retail loans as the total of its lending to the retail sector recorded in cell 11A in its most recent *FSA015 data item*.

#### 12.6.7

**R**

In this section:

- (1) a retail *deposit* is a *deposit* accepted from a *consumer*; and
- (2) *SME deposits* are *deposits* accepted from, and account balances where the account holders are, *small and medium-sized enterprises* (or *partnerships* or *sole traders* or *charities* which would be *small and medium-sized enterprises* if they were companies).

- 12.6.8 **R** The second condition is that no less than 99.5% of the *firm's* total assets and no less than 99.5% of its total liabilities are denominated in sterling, euros or United States dollars.

#### Size of the simplified buffer requirement

- 12.6.9 **R**
- (1) A *simplified ILAS BIPRU firm* must ensure that the size of its liquid assets buffer is at all times greater than or equal to 50% of the amount produced by adding:
    - (a) the wholesale net cash outflow component;
    - (b) the retail and SME *deposit* component; and
    - (c) the credit pipeline component.
  - (2) This is the *simplified buffer requirement*.

#### The wholesale net cash outflow component

- 12.6.10 **R**
- (1) The wholesale net cash outflow component is a *firm's* peak cumulative wholesale net cash outflow over the next three *months* where the peak is established by:
    - (a) calculating the daily wholesale net cash flow by reference to a *firm's* wholesale assets maturing that day and its wholesale liabilities falling due on that day;
    - (b) for each of the *business days* in the next three *months*, calculating the cumulative total of such daily net cash flows as at the *business day* in question; and
    - (c) identifying the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).
  - (2) The figure identified in (1)(c) is the peak cumulative wholesale net cash outflow.
  - (3) For the purpose of calculating the peak cumulative wholesale net cash outflow, a *firm* must:
    - (a) exclude from the calculation in (1)(a) cash flows attributable to *repo* and reverse *repo*, forward sales, forward purchases, redemptions and any other transactions entered into by the *firm* where the security leg of the transaction in question is in respect of securities of the type described in ■ BIPRU 12.7.2R (1) and ■ (2);
    - (b) include wholesale cash outflows in that calculation according to their earliest contractual maturity;
    - (c) exclude wholesale cash flows attributable to reserves in the form of sight deposits with a central bank and *designated money market funds* that it includes in its liquid assets buffer in accordance with the *rules* on asset eligibility in ■ BIPRU 12.7; and
    - (d) exclude any retail *deposits* or SME *deposits*.

#### The retail and SME deposit component

- 12.6.11 **R**
- (1) The retail and SME *deposit* component is the sum represented by:
    - (a) 20% of a *firm's* Type A retail *deposits*;

- (b) 10% of a *firm's* Type B retail *deposits*; and
- (c) 20% of a *firm's* SME *deposits*.

(2) A *firm* must:

- (a) assess the likelihood that retail *deposits* that it holds will be withdrawn in response to actual or perceived changes in the *firm's* credit-worthiness;
- (b) calculate the amount of retail *deposits* that it assesses as having a higher than average likelihood of withdrawal in the circumstances described in (a) (Type A retail *deposits*); and
- (c) class all other of its retail *deposits* as Type B retail *deposits*.

12.6.12 **G** In the *appropriate regulator's* view, a Type A retail *deposit* is likely to include one which:

- (1) has been accepted through the internet; or
- (2) is considered to have a more than average sensitivity to interest rate changes (such as a deposit whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or
- (3) in relation to any individual depositor exceeds to a significant extent the amount of that individuals *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or
- (4) is not accepted from a depositor with whom the *firm* has had a long relationship; or
- (5) is accepted from retail depositors who can access their *deposits* before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or
- (6) is not held in an account which is maintained for transactional purposes.

12.6.13 **R** Before applying for a *simplified ILAS waiver*, a *firm* must prepare a written policy statement recording its approach to assessing the likelihood of withdrawal of its retail *deposits* in the circumstances described in **BIPRU 12.6.11R (2)(a)** and ensure that:

- (1) the *firm's governing body* approves and conducts appropriate reviews of the policy statement; and
- (2) the *firm* submits a copy of the policy statement to its usual supervisory contact at the *appropriate regulator*.

12.6.14 **G** In considering a *firm's* application for a *simplified ILAS waiver*, the *appropriate regulator* will take into account the *firm's* policy statement submitted to it under **BIPRU 12.6.13R** and form a view about the

appropriateness of the assumptions on which the policy statement is based. Where a policy statement submitted after the grant of a *simplified ILAS waiver* reflects a materially different assessment to that set out in the policy statement considered as part of a *firm's waiver* application, a *firm* should expect that the *appropriate regulator* will wish to review the continued appropriateness of the *firm's simplified ILAS waiver* and in so doing will re-examine afresh all matters to which it had regard when the *waiver* in question was granted. The *appropriate regulator* expects a *firm* to review the appropriateness of its policy statement as often as is necessary and in any event no less frequently than annually. A *firm* should always review the continued appropriateness of its policy statement following a material change to the nature of the *firm's* business. Where a *firm* updates or otherwise changes its policy statement it should submit promptly to the *appropriate regulator* the new document.

### The credit pipeline component

12.6.15

R

The credit pipeline component is the sum represented by 25% of a *firm's* credit facilities offered to its *customers* but which are yet to be drawn down, including:

- (1) offers to make loans secured on residential property;
- (2) overdraft facilities; and
- (3) credit card facilities.

### Buffer securities restriction

12.6.16

R

- (1) A *simplified ILAS BIPRU firm* may only include in its liquid assets buffer eligible government and *designated multilateral development bank* debt securities up to the value of the *buffer securities restriction*.
- (2) For the purpose of calculating the *buffer securities restriction*, a *firm* must:
  - (a) calculate its daily net flow in government and *designated multilateral development bank* debt securities eligible as classes of assets for inclusion in the *firm's* liquid assets buffer;
  - (b) for each of the *business days* in the next three *months* calculate the cumulative total of such daily securities flows, including the opening balance, as at the *business day* in question; and
  - (c) identify the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).
- (3) For the purpose of (2)(a), a *firm* must include:
  - (a) all contractual inflows and outflows of eligible debt securities arising from *repo*, reverse *repo*, forward sales, forward purchases, redemptions and any other transactions involving those securities; and
  - (b) those cash flows excluded under ■ BIPRU 12.6.10 R (3)(a).

12.6.17 **G** In mathematical terms the calculation in **■ BIPRU 12.6.9R** and **■ BIPRU 12.6.16R** may be represented as follows:

Liquidity Buffer  $\geq$  (Wholesale net cashoutflow component + Retail and SME deposit component + Credit pipeline component)  $\times 0.5$

Liquidity buffer	$FSA048_{18,1} + FSA048_{19,1} + FSA048_{6,1} + FSA048_{6,2} + FSA048_{25,2} + FSA048_{34,2}$ $+ \inf \{f(x) : x = 1,2,3..y\}$ <p>where :</p> $f(x) = \sum_{m=1}^x FSA047_{6,m} + \sum_{m=1}^x FSA047_{25,m} + \sum_{m=1}^x FSA047_{34,m}$
Retail and SME deposit component	$\left( 0.2 \times \sum_{n=53}^{54} \sum_{m=1}^{10} FSA048_{n,m} \right) + \left( 0.1 \times \sum_{m=1}^{10} FSA048_{55,m} \right)$
Credit pipeline component	$0.25 \times \left( \sum_{n=59}^{69} FSA048_{n,1} \right)$
Wholesale net cash outflow component	$\min \left( \left( 0, \left( \sum_{n=20}^{22} FSA048_{n,1} \right) + \left( \sum_{n=26}^{30} FSA048_{n,2} \right) + \left( \sum_{n=35}^{39} FSA048_{n,2} \right) + \left( \sum_{n=44}^{51} FSA048_{n,1} \right) + \right. \right.$ $\left. \left( \sum_{m=1}^5 FSA048_{52,m} \right) + FSA048_{56,1} + \inf \{g(x) : x = 1,2,3..y\} \right)$ <p>where :</p> $g(x) = \sum_{m=1}^y \left[ \left( \sum_{n=20}^{23} FSA047_{n,m} \right) + \left( \sum_{n=26}^{30} FSA047_{n,m} \right) + \left( \sum_{n=35}^{51} FSA047_{n,m} \right) + FSA047_{57,m} \right]$

Where :

y = number of business days in three months

$FSA_{xxx}_{m,n}$  = The entry in FSA $XXX$  row m column n

$\inf \{f(x) : x = 1,2,3\}$  represents the greatest lower bound of the function f(x) over the range x = 1,2,3

### Foreign currency positions

- 12.6.18 **R**
- (1) Subject to (3), a *simplified ILAS BIPRU firm* that has assets or liabilities denominated in either or both euros and United States dollars must carry out separate calculations under **■ BIPRU 12.6.9R** in relation to its positions in each of those currencies, in addition to that which it carries out in relation to its sterling positions (if any).
  - (2) A *firm* to which (1) applies must ensure that, for the purpose of meeting the *simplified buffer requirement*, it holds in its liquid assets buffer assets denominated in either or both euros and United States dollars (as relevant) greater than or equal to the amount produced by the calculation in the corresponding currency required under (1), in addition to any sterling liquid assets that it is required to hold in its buffer in respect of its sterling positions.
  - (3) Paragraph (1) does not apply to a *simplified ILAS BIPRU firm* that hedges fully its positions in either or both euros and United States dollars such that the *firm* is not exposed to any cross-currency *liquidity risk* in respect of those positions.

### Content of the simplified ILAS liquid assets buffer

**12.6.19** **G** The *rules* in ■ BIPRU 12.7 set out the sorts of assets that are eligible for the liquid assets buffer of an *ILAS BIPRU firm*. Every *ILAS BIPRU firm* may include in its buffer reserves in the form of sight deposits at a central bank and high quality debt securities issued by governments and *designated multilateral development banks* subject to the eligibility rules in ■ BIPRU 12.7. ■ BIPRU 12.7 provides that a *simplified ILAS BIPRU firm* may also include in its buffer investments in a *designated money market fund*.

**12.6.20** **G** A *simplified ILAS BIPRU firm* may include in the liquid assets buffer any combination of the eligible assets permitted by the *rules* in ■ BIPRU 12.7.

### ILSA

**12.6.21** **R** (1) A *simplified ILAS BIPRU firm* must regularly carry out an *ILSA* which contains an assessment of the *firm's* compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4, including the results of the stress tests required by the rules in ■ BIPRU 12.4.

(2) The *firm* must make a written record of its *ILSA*.

(3) The *ILSA* must be proportionate to the nature, scale and complexity of that *firm's* activities.

(4) The *ILSA* must take into account *group-wide* liquidity resources only to the extent that reliance on these is permitted by the *appropriate regulator*.

**12.6.22** **G** For the purpose of ■ BIPRU 12.6.21R, a *firm* should carry out an *ILSA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that the *firm's* usual supervisory contact at the *appropriate regulator* will ask for the *ILSA* to be submitted as part of the ongoing supervisory process.

## 12.7 Liquid assets buffer

- 12.7.1** **G** ■ BIPRU 12.2 provides that an *ILAS BIPRU firm* must ensure that its liquidity resources contain an adequate buffer of high quality, unencumbered assets. ■ BIPRU 12.7 describes in more detail the nature of the assets that are eligible for inclusion in that buffer. The *rules* in this section provide that some types of assets are eligible for use only by a *simplified ILAS BIPRU firm*.
- 12.7.2** **R** For the purpose of satisfying ■ BIPRU 12.2.8R, a *firm* to which this section applies may 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*.
- 12.7.2A** **R**
- 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.
- 12.7.4** **R** For the purpose of ■ BIPRU 12.7.3R, a *firm* may not include a debt security unless:
- (1) the central government or central bank in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with credit quality step 1 in the table set out in ■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAs* to credit quality steps); and
  - (2) that debt security is either:

- (a) denominated in the domestic currency of the country in question; or
- (b) denominated in a currency other than the domestic currency, provided it is denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.
- 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.
- 12.7.6** **R** For the purpose of ■ BIPRU 12.7.5R, a *firm* may not include reserves held at a central bank unless:
- (1) the central bank in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with credit quality step 1 in the table set out in ■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAs* to credit quality steps); and
- (2) those reserves are denominated in the domestic currency of the central bank in question.
- 12.7.6A** **R** For the purpose of ■ BIPRU 12.7.2R (2), a *firm* may not include securities issued by a *designated multilateral development bank* unless:
- (1) the *designated multilateral development bank* in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with credit quality step 1 in the table set out in ■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAs* to credit quality steps); and
- (2) those securities are denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.
- 12.7.7** **G** It is important that a *firm* identifies and understands the range of central bank facilities in which it is eligible to participate. A *firm* may be eligible to participate in some facilities of this kind by virtue of its having a *branch* in a particular country. In addition to identifying the central bank facilities to which it has access, a *firm* should ensure that it has in place appropriate legal and administrative arrangements to enable it to draw on those facilities in a timely manner.
- 12.7.8** **G** In deciding on the precise composition of its liquid assets buffer, a *firm* should ensure that it tailors the contents of the buffer to the needs of its business and the *liquidity risk* that it faces. In particular, a *firm* should ensure that it holds assets in its buffer which can be realised with the speed necessary to meet its liabilities as they fall due. In doing so, a *firm* should have regard to the currencies in which its liabilities are denominated and



should take into account the potential effect of stressed conditions on its ability to access spot and *swap* foreign exchange markets in a manner consistent with the settlement cycles of foreign exchange settlement systems. A *firm* should have regard to the results of its *ILAA* or, as the case may be, its *ILSA*, in assessing the speed with which its liabilities fall due in stressed and non-stressed conditions.

12.7.8A **R**12.7.8B **R**

12.7.9 **R** For the purposes of ■ BIPRU 12.7.2R (1) and ■ (2), a *firm* must only count securities:

- (1) which are unencumbered;
- (2) (a) to which it has legal title; or  
(b) to which a *central bank* has legal title but which meet the requirements of ■ BIPRU 12.7.9AR (1), subject to ■ BIPRU 12.7.9AR (2); and
- (3) which that *firm* realises on a regular basis.

12.7.9A **R**

- (1) For the purposes of ■ BIPRU 12.7.9R (2)(b) the requirements are that:
  - (a) the securities are in excess of the amount of collateral required to be held by that *central bank*; and
  - (b) the *firm* is entitled to regain legal title to such securities without any encumbrance.
- (2) The *firm* may only count securities that meet the requirements of ■ BIPRU 12.7.9 R and ■ BIPRU 12.7.9AR (1) from the point in time when the *firm* would regain legal title to the securities from the *central bank*, subsequent to any required notice period.
- (3) For the purposes of ■ BIPRU 12.7.9AR (2) any required notice period is deemed to commence on the first *business day* that the *central bank* could receive notice from the *firm*.

12.7.10 **G**

The *appropriate regulator* regards as encumbered any asset which the *firm* in question has provided as collateral. Therefore, where assets have been used as collateral in this way (for example, in a *repo*), they should not be included in the *firm's* liquid assets buffer. However, any assets provided by the *firm* to a *central bank* as collateral which meet the requirements in ■ BIPRU 12.7.9A R will be recognised as unencumbered by the for the purposes of ■ BIPRU 12.7.9R (1). For the avoidance of doubt, there is no need for notice to have actually been served to meet the requirements in ■ BIPRU 12.7.9AR (2).

12.7.11 **R**

- (1) For the purpose of ■ BIPRU 12.7.9R (3), a *firm* must periodically realise a proportion of the assets in its liquid assets buffer through *repo* or outright sale to the market.

- (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 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.

12.7.12 **G** The *appropriate regulator* will, as part of its review of a *firm's* ILAA or, as the case may be, its ILSA, assess the adequacy of a *firm's* periodic realisation policy and its implementation in practice.

12.7.12A **R**

## 12.8 Cross-border and intra-group management of liquidity

- 12.8.1** **G** Every *firm* subject to ■ BIPRU 12 is subject to the *overall liquidity adequacy rule*. The effect of that rule is that every *firm* is required to be self-sufficient in terms of liquidity adequacy and to be able to satisfy that rule relying on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or *third country BIPRU firm* compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in ■ BIPRU 12.2.3 R.
- 12.8.2** **G** However, the *appropriate regulator* recognises that there may be circumstances in which it would be appropriate for a *firm* to rely on liquidity resources which can be made available to it by other members of its *group*, or for a *firm* to rely on liquidity resources elsewhere in the *firm* for the purposes of ensuring that its *UK branch* has adequate liquidity resources in respect of the activities carried on from the *branch*. Where the *appropriate regulator* is satisfied that the statutory tests in section 138A (Modification or waiver of rules) of the *Act* are met, the *appropriate regulator* will consider modifying the *overall liquidity adequacy rule* to permit reliance on liquidity support of this kind.
- 12.8.3** **G** ■ BIPRU 12.8 provides *guidance* on two types of modification to the *overall liquidity adequacy rule* and to other *rules* in ■ BIPRU 12 for which the *appropriate regulator* considers a *firm* may wish to apply, namely:
- (1) an *intra-group liquidity modification*; and
  - (2) a *whole-firm liquidity modification*.
- 12.8.4** **G** In considering whether the statutory tests in section 138A of the *Act* have been met, the *appropriate regulator* will, amongst others, have regard to the factors detailed below in relation to an *intra-group liquidity modification* (of the kind permitting the inclusion in a *firm's* liquidity resources of *parent undertaking* liquidity support) and a *whole-firm liquidity modification*. In practice it is likely that the *appropriate regulator* will view these as preconditions to the grant of an *intra-group liquidity modification* of that type or a *whole-firm liquidity modification* and will therefore ordinarily need to be satisfied fully that each has been adequately addressed. They include matters on which the *appropriate regulator* will need to reach agreement with the *Home State regulator*, *third country competent authority*, or other relevant supervisor, and also matters which it will need to agree directly with a *firm* or the *parent undertaking* of a *firm*. It is likely that a number of these matters will be reflected as requirements or conditions in the modification.

**12.8.5** **G** This section represents merely an indication of the matters to which the *appropriate regulator* will have regard in considering an application for a *whole-firm liquidity modification* or an *intra-group liquidity modification*. In considering such an application, the *appropriate regulator* will always take into account anything that it reasonably considers to be relevant for the purposes of assessing whether the statutory tests in section 138A of the Act are met. In doing so, it will have regard to the role and importance of a *firm* or *UK branch* in the *UK financial system*.

**12.8.6** **G** The *appropriate regulator* anticipates that an application to modify the *overall liquidity adequacy rule* may be accompanied by an application to waive or modify other rules in ■ BIPRU 12 (for example, the stress testing and *contingency funding plan rules* in ■ BIPRU 12.4). The *appropriate regulator* offers some *guidance* in this section on applications of this type.

### **Intra-group liquidity modification: general**

**12.8.7** **G** The *appropriate regulator* recognises that a *firm* may be part of a wider *group* which manages its liquidity on a *group-wide* basis. A *firm* which considers that the statutory tests in section 138A of the Act are met may apply for an *intra-group liquidity modification* permitting it to rely on liquidity support from elsewhere in its *group*. Until a *firm* has such a modification it will need to meet the *overall liquidity adequacy rule* from its own liquidity resources. The effect of an *intra-group liquidity modification* is to modify the *overall liquidity adequacy rule* to recognise the extent to which the *appropriate regulator* is prepared to accept liquidity resources from other entities in a *firm's* group for the purposes of the *firm's* own compliance with the *overall liquidity adequacy rule*. ■ BIPRU 12.8.11G offers additional *guidance* on the likely extent of this recognition.

**12.8.8** **G** ■ BIPRU 12.8.14 G to ■ BIPRU 12.8.20 G set out the *appropriate regulator's* likely approach in considering an application for an *intra-group liquidity modification* in which a *firm* seeks to rely on support from a *parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*.

**12.8.9** **G** The *appropriate regulator* may also consider an application for an *intra-group liquidity modification* where a *firm* wishes to rely on liquidity resources from an entity in its *group* other than an *overseas parent undertaking*. The *appropriate regulator* recognises that a *firm* incorporated in the *United Kingdom* and to which ■ BIPRU 12 applies may wish to rely on liquidity support from another such *firm*. In practice, the *appropriate regulator* anticipates that a *firm* applying for an *intra-group liquidity modification* in these circumstances will be asking for permission to rely on support from its *parent undertaking* in the *United Kingdom*. In any event, the *appropriate regulator* will consider such applications on a case-by-case basis and will apply the approach outlined in ■ BIPRU 12.8.14 G to ■ BIPRU 12.8.20 G where relevant and by analogy.

**12.8.10** **G** The *appropriate regulator* also recognises that a *firm* incorporated in the *United Kingdom* and to which ■ BIPRU 12 applies may wish to rely on liquidity support from a *subsidiary undertaking* of that *firm* which is incorporated in a country or territory outside the *United Kingdom*. The *appropriate regulator*

is, however, likely to consider that an application for an *intra-group liquidity modification* that contemplates reliance for liquidity support on only, or mostly, an applicant *firm's* overseas *subsidiary undertakings* is unlikely to satisfy the tests in section 138A of the *Act*. As a general principle, and unless persuaded otherwise by an applicant *firm's* arguments in support of its application for an *intra-group liquidity modification*, the *appropriate regulator* is likely to take the view that a *firm's* overseas *subsidiary undertakings* are likely to be constrained in their ability to provide meaningful levels of liquidity support to their *parent undertaking*.

**12.8.11** **G** In each application for an *intra-group liquidity modification*, the *appropriate regulator* will consider the extent to which it is appropriate to modify the *overall liquidity adequacy rule* to allow reliance by an applicant *firm* on liquidity resources elsewhere in a *firm's* group. However, it is unlikely that the *appropriate regulator* would consider the conditions in section 138A of the *Act* to be met in circumstances in which the *overall liquidity adequacy rule* was modified to allow unlimited reliance on liquidity resources that are not the applicant *firm's* own. As a general principle, the *appropriate regulator* is likely to wish to ensure that, having regard to the results of an applicant *firm's* ILAA:

- (1) once modified, the *overall liquidity adequacy rule* still requires the *firm* to have adequate liquidity resources to enable it to wind down its business in an orderly and controlled manner in circumstances in which its business ceases to be viable; and
- (2) the amount of liquidity support permitted in the modification is a reasonable one having regard to the total liquidity resources of the *group* entity on which it is proposed that reliance should be placed.

**12.8.12** **G** In determining the appropriate duration of an *intra-group liquidity modification*, the *appropriate regulator* will have regard to the role and importance of the *firm* in question in the *UK financial system*. In some cases, the *appropriate regulator* may take the view that an *intra-group liquidity modification* covering a *firm* whose role and importance in the *UK financial system* are significant ought to be reviewed more regularly than one granted in respect of a less systemically significant *firm*. The *appropriate regulator* will consider this issue in determining the appropriate duration of such a modification.

**12.8.13** **G** In modifying the *overall liquidity adequacy rule* by means of an *intra-group liquidity modification*, the *appropriate regulator* may also modify the stress testing and *contingency funding plan rules* in ■ BIPRU 12.4 such that an applicant *firm* may achieve compliance with those *rules* by its *parent undertaking* conducting *group-wide* stress testing and preparing a *group-wide contingency funding plan* which gives adequate recognition to the position of the applicant *firm*.

### Consideration of an application for an *intra-group liquidity modification*

**12.8.14** **G** ■ BIPRU 12.8.15 G to ■ BIPRU 12.8.20 G set out some of the matters on which the *appropriate regulator* will expect to be satisfied before granting an *intra-group liquidity modification* where permission is sought to rely on support

from an *overseas parent undertaking* which is itself subject to a regime of liquidity regulation.

- 12.8.15** **G** In relation to the regime of liquidity regulation imposed by the authority that regulates for liquidity purposes an applicant *firm's parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will ordinarily expect to be satisfied that:
- (1) the regime of liquidity regulation to which that *undertaking* is subject delivers outcomes as regards the regulation of that *undertaking's liquidity risk* that are broadly equivalent to those intended by ■ BIPRU 12; and
  - (2) there is clarity as to any legal constraints imposed by the authority which regulates that *undertaking* for liquidity purposes on the provision of liquidity from that *undertaking* to the applicant *firm*.
- 12.8.16** **G** It will not always be the case that an applicant *firm* wishes to rely on a *parent undertaking*, or other *group* entity, that is itself subject to a regime of liquidity regulation, whether or not equivalent to the *appropriate regulator's*. In assessing a *firm's* application for an *intra-group liquidity modification*, the *appropriate regulator* will always have regard to the regulatory framework to which the entity on which it is proposed to rely for liquidity support is subject. Other things being equal, however, the *appropriate regulator* is more likely to be persuaded that the tests in section 138A of the *Act* are met in circumstances in which the entity on which it is proposed to rely for liquidity support is itself subject to an appropriate degree of regulation. Even where the *parent undertaking*, or other *group* entity, in question is subject to a regime of liquidity regulation, the *appropriate regulator* will in principle be more likely to grant an *intra-group liquidity modification* in circumstances in which the applicant *firm* does not accept a significant amount of retail *deposits*.
- 12.8.17** **G** In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will ordinarily expect to reach agreement with the authority that regulates that *undertaking* for liquidity purposes in a number of areas, including agreement that:
- (1) it will notify the *appropriate regulator* of any material or persistent breaches by that *undertaking* of that authority's liquidity rules, or of risks that such breaches are imminent;
  - (2) it is satisfied with the adequacy of the *parent undertaking's* arrangements for *liquidity risk* management;
  - (3) it is satisfied as to the adequacy of the *parent undertaking's* liquidity resources including:
    - (a) the size and quality of its liquid assets buffer; and
    - (b) the size and quality of any liquidity resources that are held in the *United Kingdom* for the purpose of meeting the liabilities of an applicant *firm* as they fall due;

- (4) it does not object to any undertakings given by that *parent undertaking* in respect of an applicant *firm* to ensure that the *firm* has adequate liquidity resources; and
- (5) it will have due regard to the views of the *appropriate regulator* in its supervision of the liquidity position of that *parent undertaking*.

**12.8.18** **G** In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will, before granting an *intra-group liquidity modification*, ordinarily expect to have reached agreement with that *parent undertaking* that:

- (1) it will make available liquidity resources at all times to that applicant *firm* if needed;
- (2) it will enter into an undertaking in a suitable form with an applicant *firm* committing it to provide liquidity support to that *firm* on the occurrence of certain defined events;
- (3) it will ensure that the applicant *firm* maintains liquidity resources of appropriate size and quality in the *United Kingdom* for the purposes of meeting the liquidity needs of that *firm*;
- (4) it will maintain arrangements, including having adequate liquidity resources, to ensure that it, the applicant *firm* and any other entities in its *group* to which it provides liquidity support are able to wind down their businesses in an orderly and controlled manner in circumstances where its, or their, businesses cease to be viable;
- (5) it will make available to the *appropriate regulator* information in an appropriate format on *group* liquidity; and
- (6) it will participate in the *appropriate regulator's* thematic supervisory work in relation to liquidity when requested to do so by the *appropriate regulator*.

**12.8.19** **G** The *appropriate regulator* will wish to ensure that it has adequate data at the time of consideration of the *intra-group liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of any *group* entity on which the applicant *firm* proposes to rely for liquidity purposes. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* populated by the entities on which the applicant *firm* proposes to rely. It is also likely that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that the entities on which it is given permission to rely for the purpose of meeting the *overall liquidity adequacy rule* provide completed relevant *data items* to the *appropriate regulator* on a continuing basis. The frequency of *data item* submission will be determined as part of the *appropriate regulator's* consideration of the applicant *firm's* case but is in any event likely to be reflective of the *appropriate regulator's* assessment of the *liquidity risk* profile of the entities on which liquidity support is permitted.

**12.8.20** **G** In addition, the *appropriate regulator* will also wish to understand in relation to any *group* entity on which an applicant *firm* proposes to rely for liquidity support the legal structure of the *group* and the extent to which that structure, or any relevant legal principles, may restrict the provision of timely liquidity support in appropriate amounts to the applicant *firm* when required.

### Ongoing requirements

**12.8.21** **G** The *appropriate regulator* also anticipates that an *intra-group liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:

- (1) the *appropriate regulator* receiving annual confirmation from the authority that regulates an applicant *firm's parent undertaking* for liquidity purposes that it remains satisfied with the arrangements in respect of that *undertaking* for liquidity supervision and their operation; and
- (2) an annual meeting with the same authority to discuss liquidity supervision of that *undertaking*.

### Whole-firm liquidity modification: general

**12.8.22** **G** In relation to an *incoming EEA firm* or *third country BIPRU firm*, the *overall liquidity adequacy rule* provides that, for the purpose of complying with that rule, a *firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in ■ BIPRU 12.2.3 R. Those conditions seek to ensure that a *firm* of this kind has a reserve of liquidity for operational purposes that is under the control of, and available for use by, that *firm's UK branch*. Further *guidance* is given in ■ BIPRU 12.5.39 G in relation to the local operational liquidity reserve. In addition, ■ BIPRU 12.9.10 G explains how the *appropriate regulator* will approach the giving of *individual liquidity guidance* to an *incoming EEA firm* or *third country BIPRU firm*. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *UK branch* to rely on the availability of liquidity resources from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind for its *UK branch* may apply for a modification to the *overall liquidity adequacy rule* where it considers that the statutory tests in section 138A of the Act are met.

**12.8.23** **G** Although an *incoming EEA firm* or *third country BIPRU firm* may apply to modify the *overall liquidity adequacy rule* and other rules in ■ BIPRU 12, in relation to its *UK branch*, the *appropriate regulator* anticipates that many such *firms* will wish to apply for a modification in the form which the *appropriate regulator* defines as a *whole-firm liquidity modification*. In the *appropriate regulator's* view, a modification to the *overall liquidity adequacy rule* for a *firm* of this kind will tend to be appropriate where an applicant *firm* manages its liquidity on an integrated, whole-*firm* basis. Where that is the case, and having regard to the matters outlined in the *guidance* in this section, the *appropriate regulator* is likely to consider it more appropriate for the *UK branch* to be subject, in large part, to the same regulatory liquidity regime which applies to the rest of the *firm*. In granting a *whole-firm liquidity modification* the *appropriate regulator* therefore recognises that in certain circumstances a *UK branch* can have adequate liquidity



resources in circumstances where the liquidity resources upon which the *firm* seeks to rely do not meet the criteria set out in ■ BIPRU 12.2.3 R.

12.8.24 **G** Accordingly, a *whole-firm liquidity modification* envisages:

- (1) a modification to the *overall liquidity adequacy rule* so as to permit reliance by the *firm*, in relation to its *UK branch*, on liquidity resources wherever held in the *firm* for the purposes of meeting that *rule*; and
- (2) a *waiver* of the remainder of the substantive *rules* in ■ BIPRU 12, with the effect that the *UK branch* of the applicant *firm* becomes subject for the purpose of day-to-day liquidity supervision to the liquidity regime of the *Home State regulator* or *third country competent authority* in question.

12.8.25 **G** The effect of a *whole-firm liquidity modification* is that the *appropriate regulator* will in its supervision of the liquidity of the *UK branch* place reliance on the liquidity regime of the *Home State regulator* or *third country competent authority* in question. The *appropriate regulator* will wish to ensure that it has adequate data at the time of consideration of the *whole-firm liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of the *firm* as a whole. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* covering the liquidity position of the *firm* as a whole. It is also likely that an applicant *firm* will be asked, as part of its application, to provide an appropriately detailed account as to the activities conducted by its *UK branch* as at the date of the application. In addition, the *appropriate regulator* anticipates that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that it provides relevant *data items*, covering the *whole-firm* liquidity position, to the *appropriate regulator* on a continuing basis at a frequency to be determined as part of the *appropriate regulator's* consideration of the applicant *firm's* case but in any event likely to be reflective of the *appropriate regulator's* assessment of the *liquidity risk* profile of the *firm*.

### Consideration of an application for a whole-firm liquidity modification

12.8.26 **G** In relation to the *Home State regulator's* or *third country competent authority's* regime of liquidity regulation, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to be satisfied that:

- (1) the regime in question delivers outcomes as regards the regulation of the applicant *firm's* *liquidity risk* that are broadly equivalent to those intended by this chapter; and
- (2) there is clarity as to any legal constraints imposed by the *Home State regulator* or *third country competent authority* on the provision of liquidity by a *firm* to its *UK branch*, as well as the potential for such restrictions to be imposed in the future.

- 12.8.27** **G** In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with the *Home State regulator* or *third country competent authority* in a number of areas, including agreement that:
- (1) it will notify the *appropriate regulator* promptly of any material or persistent breaches by that *firm* of its liquidity rules, or of risks that such breaches are imminent;
  - (2) it is satisfied with the adequacy of the arrangements in place for *firm-wide liquidity risk* management;
  - (3) it is satisfied as to the adequacy of that *firm's* liquidity resources including the size and quality of its liquid assets buffer;
  - (4) it does not object to any undertakings given by that *firm* in respect of its *UK branch* to ensure that the *branch* has adequate liquidity resources; and
  - (5) it will have due regard to the views of the *appropriate regulator* in its supervision of that *firm's* liquidity position.

- 12.8.28** **G** In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with that *firm* in a number of areas, including agreement that:
- (1) it will make available liquidity resources at all times to its *UK branch* if needed;
  - (2) it will make available to the *appropriate regulator* information in an appropriate format on *firm-wide* liquidity;
  - (3) it will notify the *appropriate regulator* at the same time as it notifies the *Home State regulator* or *third country competent authority* of any issues relevant to the liquidity position of its *UK branch* or compliance with the rules to which it is subject in respect of its liquidity (including with the terms of its *whole-firm liquidity modification*);
  - (4) its *UK branch* will continue to be fully integrated with the rest of the *firm* for *liquidity risk* management purposes; and
  - (5) it will participate in the *appropriate regulator's* thematic supervisory work in relation to liquidity when requested to do so by the *appropriate regulator*.

### Ongoing requirements

- 12.8.29** **G** The *appropriate regulator* also anticipates that a *whole-firm liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:
- (1) the *appropriate regulator* receiving annual confirmation from the *Home State regulator* or *third country competent authority* that it

remains satisfied with the arrangements in respect of that *firm* for liquidity supervision and their operation;

- (2) an annual meeting with the *Home State regulator* or *third country competent authority* to discuss liquidity supervision of that *firm*;
- (3) the *appropriate regulator* receiving annual confirmation from the *firm*, approved by its *governing body*, that it remains in full compliance with the terms of its *whole-firm liquidity modification*; and
- (4) as at the first anniversary of the grant of the *whole-firm liquidity modification* and on each anniversary thereafter, the *appropriate regulator* receiving from the *firm*:
  - (a) an appropriate account of the activities conducted by the *UK branch* over the previous year; and
  - (b) a copy of the *firm's* latest business plan where this differs from that previously sent to the *appropriate regulator* after grant of its *whole-firm liquidity modification*.

## 12.8.30

**G** In determining the appropriate duration of a *whole-firm liquidity modification*, the *appropriate regulator* will have regard to the role and importance of the *UK branch* in question in the *UK financial system*. In some cases, the *appropriate regulator* may take the view that a *whole-firm liquidity modification*, covering a *UK branch* whose role and importance in the *UK financial system* are significant, ought to be reviewed more regularly than one granted in respect of a less systemically significant *branch*. The *appropriate regulator* will consider this issue in determining the appropriate duration of such a modification. The *appropriate regulator* is also likely to consider it appropriate in modifications other than those of short duration to reflect in the terms of the modification representations made either in an applicant *firm's* business plan or direct to the *appropriate regulator* as part of the application process, but in either case as to the expected nature and size of the *UK branch's* activities over the course of the duration of the modification. Where requirements are included in a modification in relation to these matters, a *firm* that anticipates that it will breach those requirements will need to apply in advance of any such event for a variation to its then existing *whole-firm liquidity modification*. In considering an application to vary, the *appropriate regulator* will consider afresh whether the tests in section 138A of the *Act* continue to be met for the grant of a *whole-firm liquidity modification* to the *firm* in question.

## 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.



## Mapping of credit assessments of ECAs to credit quality steps

Credit Quality Step	Fitch's assessment	Moody's assessments	S&P's assessments	DBRS' assessments
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
2	A+ to A-	A1 to A3	A+ to A-	AH to AL
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
5	B+ to B-	B1 to B3	B+ to B-	BH to BL
6	CCC+ and below	Caa1 and below	CCC+ and below	CCCH and below

