Interim Prudential Sourcebook for Banks Instrument 2001

1. The Financial Services Authority makes this instrument on 21 June 2001.

New rules and guidance

2. The Financial Services Authority makes the rules (other than IPRU (BANK) 3.3.15R in chapter GN) and gives the guidance (other than section 7.3 of chapter LM) in Annex A (The Sourcebook) to this instrument.

3. Sections 138, 149 and 156 of the Financial Services and Markets Act 2000 (the “Act”) are specified for the purpose of section 153(2) of the Act.

Continued rule

4. The Financial Services Authority designates paragraph 4(4) of Schedule 3 to the Banking Act 1987 (1987 c22), as amended, (the "continued rule") for the purposes of article 4(1) of the Financial Services and Markets Act 2000 (Repeals, Transitional Provisions and Savings) (Rules) Order 2001 (the "Order").

5. The continued rule is to be treated as having effect under section 138 of the Act (General rule making power).

6. The continued rule:

   (i) is modified so as to be to be interpreted in accordance with, and applies subject to, the general provisions contained in the General Provisions Instrument 2001; and

   (ii) is modified in accordance with Annex B (Modification of continued rule) to this instrument; and

   (iii) applies to a bank, except that in the case of an EEA bank with a UK branch paragraph (1) of the continued rule applies only in relation to that branch.

7. In paragraph 6(iii) above, "bank", "EEA bank", "UK" and "branch" have the meanings given in IPRU (BANK) 3.5.1R in chapter GN in Annex A (The Sourcebook) to this instrument.

8. The continued rule (incorporating the modifications made pursuant to paragraph 6(i) and (ii) above) is set out in Annex A (The Sourcebook) to this instrument at IPRU (BANK) 3.3.15R in chapter GN.

Guidance on continued rule

9. The Financial Services Authority gives the guidance (the "guidance on the continued rule") in section 7.3 (Committed facilities) of chapter LM in Annex A (The Sourcebook) to this instrument under section 157 of the Act and article 11 of the Order.

10. The guidance on the continued rule reproduces, with necessary modifications, section 7.3 (Committed facilities) of chapter LM in Volume II of the Guide to Banking Supervisory Policy issued by the Financial Services Authority on 30 September 2000.

Further provisions

11. This instrument shall come into force at the beginning of the day on which section 19 of the Act (the general prohibition) comes into force.

12. This instrument may be cited as the Interim Prudential Sourcebook for Banks Instrument 2001.

13. The provisions in Annex A to this instrument may be cited as the Interim Prudential Sourcebook for Banks.

By order of the Board
21 June 2001

Annex A

The Sourcebook

IPRU (BANK) attached

Annex B

Modification of continued rule

(1) The continued rule (paragraph 4(4) of Schedule 3 to the Banking Act 1987, as amended) is modified as follows:

(a) Renumber the paragraph as "3.3.15R (1)".

(b) Delete the words before "maintain" and substitute "A *bank*, except an *EEA bank* which does not have a *UK branch*, must".

(c) Delete the words after "liquidity," and before "fall due" and substitute "taking into account the nature and scale of its business so that it is able to meet its obligations as they".

(d) Delete the words after "fall due" to the end of the sentence.

(e) After the end of the paragraph, add:

> "(2) In the case of an *EEA bank* with a *UK branch*, (1) applies only in relation to that *branch*."

Annex C

Statement of purpose and compatibility applying to continued rule (IPRU (BANK) 3.3.15R)

Purpose

The purpose of IPRU (BANK) 3.3.15R is to require a firm to maintain a minimum amount of liquidity so that it is able to meet its obligations as they fall due. The FSA believes that making 3.3.15R and requiring firms to comply with it will contribute to meeting the FSA's regulatory objectives of market confidence and the protection of consumers. (Although this rule is not intended to contribute to the regulatory objectives of public awareness and the reduction of financial crime, the FSA believes it is compatible with these two objectives)

Compatibility of continued rule with the FSA's general duties under section 2 of the Act

The FSA believes that making 3.3.15R and so requiring firms to comply with it is compatible with the regulatory objectives of market confidence and the protection of consumers for the following reasons:

Market confidence

3.3.15R aims to ensure that firms maintain adequate liquidity in order to help mitigate the risk that they may be unable to meet their liabilities as they fall due. Compliance with this rule will consequently reduce the risk that the financial system operates in ways which would damage market confidence.

Consumer protection

3.3.15R aims to ensure that firms maintain adequate liquidity in order to help mitigate the risk that they may be unable to meet their liabilities as they fall due. Compliance with this rule will consequently reduce the risk that firms may be unable to meet their commitments to consumers (including depositors) as they fall due.

Principles of good regulation

The FSA's reasons for believing that making 3.3.15R is compatible with its general duty to have regard to the principles in section 2(3) of the Act are set out below.

The need to use its resources in the most efficient and economic way

The FSA believes that the most efficient and economic way to set standards regarding liquidity is to maintain the existing standard for liquidity for firms contained in Schedule 3 of the Banking Act 1987. Continuing existing prudential standards is the approach adopted for the IPRU (BANK) as a whole which preserves continuity for firms pending the introduction of an Integrated Prudential Sourcebook in the medium term.

The responsibilities of those who manage the affairs of authorised persons

3.3.15R is framed in such a way as to leave it to a firm's senior management how best to meet the required standard.

The principle that a burden or restriction should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction

Given that 3.3.15R maintains an existing standard, the FSA does not believe that any cost benefit issues will arise for a firm in maintaining that standard.

The desirability of facilitating innovation in connection with regulated activities

The FSA does not believe that 3.3.15R will restrict the scope of firms' management to develop their regulated activities in an innovative manner.

The international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom

Given that 3.3.15R maintains an existing standard, the FSA does not believe that it will have any impact on the competitive position of the United Kingdom.

The need to minimise the adverse effects on competition that may arise from anything done in the discharge of the FSA's general functions

Given that 3.3.15R maintains an existing standard, the FSA does not believe that it will have an adverse affect on competition.

The desirability of facilitating competition between those who are subject to any form of regulation by the FSA

Given that 3.3.15R maintains an existing standard, the FSA does not believe that it will have any impact on competition between those who are subject to any form of regulation by the FSA.

Compatibility with the duty of the FSA to act in a way which the FSA considers most appropriate for the purpose of meeting its regulatory objectives

The FSA believes that making 3.3.15R is the most appropriate way to meet its objectives because it reflects the importance of firms maintaining adequate liquidity so as to reduce the probability of prudential failure. Also, it gives firms some flexibility over how they choose to meet the standard and therefore gives them a wider choice of risk mitigation techniques.