

Half of banks 'unprepared' as liquidity rules loom

As many as 50% of the 2,800 banks affected by new UK rules on liquidity could be at risk of failing to meet requirements that come into effect next month, new research has suggested.

The [Financial Services Authority](#) published new rules last month that require banks to conduct stress tests, to have adequate systems to manage liquidity risk and to make basic disclosures on positions by a deadline of December 1.

Independent research firm [JWG-IT](#) said that only 45% had the appropriate systems and controls in place

and just 52% would be able meet stress testing requirements, according to a series of in-depth interviews it conducted with 13 large and mid-sized banks.

PJ Giammarino, chief executive of [JWG-IT](#) and a former operating officer of [Barclays Capital](#), warned there had never been proper cost and impact assessments carried out on the [FSA](#) liquidity rules and said the UK regulator's push for first-mover advantage could end up costing the industry billions of pounds.

"Banks are concerned that while the FSA may say now that it will take a 'best efforts' approach to qualitative liquidity rules, things can change very rapidly and the consequences for getting it wrong can be huge," Giammarino said.

However, a spokeswoman for the FSA said the regulator had consulted the industry extensively since December 2007 and that most of the rules were an extension of a framework of existing systems and controls. She said the FSA was "surprised" that so many firms would fall short of compliance.

The FSA's rules are among several bold moves by the UK regulator to reform the banking system that have seen it outpace its counterparts in many other countries. US rules on liquidity, for example, have a deadline of 2010, for implementation in 2012

The FSA spokeswoman said: "Everyone is expected to be in full compliance with the systems and controls requirements by December 1 and we will spot check firms' compliance. Non-compliance will have regulatory consequences."

Selwyn Blair-Ford, senior domain expert at [FRSGlobal](#), which advises financial firms on risk and regulatory issues, said the FSA was right to take a hardline stance. "Too many firms buried their heads in the sand and waited for the rules to be defined. This was a totally predictable state of affairs."

Blair-Ford said that any institutions that were underprepared could be "banking on the FSA being asleep over December - so that they can cobble together an infrastructure that meets FSA requirements by the start of next year".