

How Risk and Regulation are Changing the Financial Markets IT Landscape

Clock is Ticking for Compliance with UK FSA's Liquidity Requirements, Say Speakers at FRSGlobal Event

Time is quickly running out for firms that have yet to get started on their liquidity risk management projects ahead of the deadline for compliance with the UK Financial Services Authority's (FSA) new liquidity requirements, according to speakers at last week's FRSGlobal event. "There are 80 working days (less including summer holidays) between now and the deadline set by the FSA for firms to have systems and controls and stress testing in place," warned Selwyn Blair-Ford, senior domain expert for the risk and regulation solution vendor.

The new liquidity requirements have been the talk of the town for the vendor community this year and it seems that many firms are starting to listen. Given the low turnout for many events this year, as firms have been battering down the hatches and employees fearing to leave their desks in case they aren't there when they return, the FRSGlobal event was surprisingly busy. The presentation room was filled to capacity with people eager to better understand the finer points of the relatively new (the first consultation paper was published at the end of last year) FSA regulations on liquidity.

Mark Piper, vice president of UK, Ireland and MEA for FRSGlobal, noted that many firms have, until now, been quite passive about the regulations, but that interest is building as the deadline draws near. Blair-Ford seconded this notion and stressed the complexity and urgency of the situation, noting that waivers from the FSA will not act as 'get

out of jail free' cards: "Waivers won't forgive firms their obligations regarding systems and controls – waivers don't mean firms don't have to manage their liquidity, it's just where and how it's going to be reported."

The liquidity requirements first came into circulation from the FSA with the publication of Consultation Paper (CP) 08/22 near the end of last year. The CP set out a list of requirements for financial institutions to prevent them going under should another liquidity crunch occur. The paper includes the requirement for firms to conduct regular liquidity stress testing and provide lengthy liquidity risk assessment reports to the FSA to prove that they have adequate liquidity to survive a crisis.

The FSA will from the fourth quarter of this year, be able to check for evidence that firms are in compliance with the systems and controls section of the requirements. Firms must therefore be able to quantify and price liquidity under both normal and stressed conditions, taking all assets into account. They must also have stress testing and contingency requirements in place, from which results can be reported to the FSA in a "timely manner".

The proposals have undergone a number of revisions over the course of this year in the guise of CP 09/13 and, most recently, CP 09/14. The most significant revision has been an extension of the deadline for firms to comply with the regulation from October this year to the

first quarter of 2010. However, this is still a relatively short timeframe in which to introduce a liquidity systems and controls framework that is robust enough to meet the FSA's rather onerous requirements.

"There is no more room for the FSA to change the deadline further," said Selwyn-Blair. "The industry must come to terms with the fact that something must be done to meet the requirements, and it must be done now."

This fact has not, however, stopped industry bodies such as the British Bankers Association (BBA) from lobbying the regulator to lengthen the implementation timeframe. Simon Hills, executive director of prudential capital, risk and regulatory relationships at the BBA, told attendees that the association has been busy doing what it can to find a "get out clause" for smaller financial institutions. "The focus should be on systemically important banks and the FSA should not be applying the same level of scrutiny to smaller banks," he said.

The BBA is also keen to revise the current definition of what constitutes a "liquid asset" under the regulations. "The Bank of England has defined these as gilts only and we believe this is too restrictive an approach. Fortunately for us there is some tension between the FSA and the Bank of England on this subject and we intend to exploit that tension," said Hills.

Hills suggested that smaller banks should be permitted a more phased implementation of the requirements over a longer period than currently specified

in order to ensure market recovery. He also called for more international cooperation between regulators on the issue of liquidity risk management in order to ensure that the UK is not put at a disadvantage competitively. The BBA is critical of the recent Committee of European Banking Supervisors (CEBS) proposals for liquidity and Hills described them as a "woolly" and much watered down version of the FSA requirements.

Hills' criticisms were in accordance with the recent letter sent by BBA head, Angela Knight, to the FSA's Hector Sants. The letter highlighted the onerous

technology requirements that the regulation will entail and asked the FSA to provide more clarity on this area. Hills said: "With regards to the regulatory reporting, is the FSA even ready to take the weekly reports from all banks in the UK and aggregate them to understand a firm's risk exposure? This will be a difficult task for them to implement too."

Regardless of these reservations however, time marches on and the deadlines get closer. Hills warned attendees that they could not rely on a waiver to save them from the requirements. "No one will really know

what a waiver is until, I think, no earlier than 30 September, until the feedback statement is released. Until then you won't know what set of hoops you have to jump through," he said. "That said, I don't think you should wait until then. A lot of what is being asked in the CP papers is what you should and probably are doing anyway. It's how you demonstrate you have the right governance in place if asked."

If even those that are critical of some aspects of the new requirements are warning firms to get a move on, that must be heeded.