

Comment piece: FSA Strengthening Liquidity Standards Transitional Measures Consultation Paper (CP 09/14)

local knowledge
global solutions

This comment piece relates to FSA Consultation Paper CP 09/14 published on 5th June, which consults on transitional measures for the new liquidity requirements for banks, building societies and investment firms.

Introduction

In June 2009 the FSA published CP 09/14 'Strengthening Liquidity Standards 3 – Liquidity Transitional Measures'. This is the third and final consultation paper on the FSA's new liquidity regime and covers the transitional arrangements for firms moving to the new requirements, including an updated timetable for the implementation of the various aspects of the regime.

As part of the proposals the FSA is introducing extensive new reporting and liquidity stress testing requirements. Draft rules were presented in the first consultation paper CP 08/22 'Strengthening Liquidity Standards' published by the FSA in December 2008. In April 2009 the FSA published the proposals for the new liquidity reporting requirements in CP 09/13 'Strengthening Liquidity Standards 2 - Liquidity Reporting'. For further details please refer to the following comment pieces:

- Read our comment piece on [FSA strengthening liquidity standards CP 08/22](#)
- Read our comment piece on [FSA strengthening liquidity standards - reporting CP 09/13](#)

Timetable

CP 09/14 contains the following updated timetable for the new liquidity regime, including reporting:

Date	Action
15 th July	Closing date for submission of comments on CP 09/13
31 st July	Closing date for submission of comments on CP 09/14
Q3 2009	Publication of policy statement and final rules for the new regime
Q4 2009	Systems and controls requirements come into effect
From April 2010	Quantitative and reporting requirements go live

Key points

The consultation paper sets down the implementation dates for the new regime and introduces a phased approach for the following different elements of the new requirements:

- Systems and Controls Requirements
- Quantitative Requirements (including Self Sufficiency)
- Reporting Requirements

Further information on each of these requirements is given below.

Implementation dates for the new requirements are also dependent on the type of firm with separate implementation timetables given in the consultation paper for each of the following:

- Bank currently using the Sterling Stock Approach for liquidity
- Bank currently using the Mismatch Liquidity Approach for liquidity
- Building Society
- Bank using the Simplified ILAS approach under the new liquidity regime
- Building Society using the Simplified ILAS approach under the new liquidity regime
- Overseas Bank Branch without Global Liquidity Concession (GLC)
- Overseas Bank Branch with GLC
- BIPRU Full Scope Investment Firm
- BIPRU Limited Licence and Limited Activity Firms (i.e. Non ILAS Firms)

For all UK incorporated firms the systems and control requirements go live in Q4 2009, with the quantitative and reporting requirements starting in April 2010 for banks currently using the Sterling Stock Approach for liquidity and building societies. Mismatch banks, plus banks and building societies operating under the simplified ILAS approach, must comply with the quantitative and reporting requirements from June 2010 and full scope investment firms in September 2010.

For branches of overseas banks, the systems and controls requirements apply from Q4 2009 (unless the branch has a GLC), with quantitative and reporting requirements starting from September 2010.

Systems and Controls Requirements

The systems and controls rules include governing body and senior management oversight requirements plus the obligation to have in place a formally documented contingency funding plan to deal with a liquidity crisis, which should set down the firm's strategies for addressing liquidity shortfalls in emergency situations.

In addition, the systems and controls requirements include the need for firms to analyse the impact of possible future liquidity stresses on the firm's cash flows, liquidity position, profitability and solvency. This stress testing must be performed regularly and the frequency should be proportionate to the size of the firm. The firm should consider short term and protracted stress scenarios, institution specific and market wide stress scenarios and a combination of these.

Quantitative Requirements (including Self Sufficiency)

The quantitative requirements referred to in CP 09/14 are the rules defined in BIPRU 12.5, 12.6 and 12.7, which include the following:

- Individual Liquidity Adequacy Standards (ILAS)
- Simplified ILAS approach for simple banks and building societies
- Liquid assets – proposed standards for quality and quantity of liquid assets.

In addition, the quantitative requirements include the need for a firm to be self sufficient for liquidity purposes.

The ILAS requires firms to perform an Individual Liquidity Adequacy Assessment (ILAA) which includes the need to assess the impact of the following liquidity stresses:

- Name specific liquidity stress
- Market wide liquidity stress
- Combination of the above

When performing this stress testing the impact of the following ten sources of liquidity risk must also be considered:

- (1) Wholesale 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
- (10) Funding diversification risk

Reporting Requirements

The following reports have been introduced as part of the FSA's new liquidity regime:

- FSA047** - Enhanced Mismatch Report (Daily Flows)
- FSA048** - Enhanced Mismatch Report (Standard)
- FSA049** - Enhanced Mismatch Report (Simplified)
- FSA050** - Marketable Assets
- FSA051** - Funding Concentration
- FSA052** - Pricing Data
- FSA053** - Retail and Corporate Funding
- FSA054** - Currency Analysis
- FSA055** - Systems and Controls Questionnaire

The majority of firms will need to submit reports FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. However, firms adopting the Simplified ILAS approach, which at present will only be simpler building societies and mortgage banks, will be allowed to submit FSA049 in place of FSA047 and FSA048. BIPRU Limited Licence and BIPRU Limited Activity firms will only be required to submit FSA055 and this report is not applicable to other firms.

The submission deadlines for reports are tight:

- **Daily Reports:** For example Enhanced Mismatch reports in times of crisis – by 23.59 GMT on the following business day
- **Weekly Reports:** For example Pricing Data - On the following Monday
- **Monthly/Quarterly Reports:** Three business days after the period end
- **Annual Reports:** Five business days after the year end

CP 09/13 implied that there would be an initial start date for key reports such as FSA047, FSA048, FSA049 and FSA052, with the remaining reports phased in over time. CP 09/14 clarifies that there will not be a phased implementation date for different reports.

Low Level Backstop ILG

CP 09/14 introduces the concept of a Low Level Backstop ILG (Individual Liquidity Guidance), which will be issued by the FSA.

The ILG will include quantitative constraints on an individual firm's liquidity positions and will give guidance on the amount, quality and funding profile of the liquidity resources the firm should maintain.

The Low Level Backstop ILG is the minimum level the FSA judge acceptable in the present economic situation and this will be issued before the firm is required to comply with the new quantitative and reporting requirements. The level of liquidity necessary in the long term will then be determined as part of the ILAS assessment.

Waivers

Very limited additional information on waivers is included in CP 09/14 but the paper does confirm that waivers will need to be in place in time for the start date of the quantitative and reporting requirements for the firm. For all firms, the FSA will agree a window of time with the firm during which it will be able to apply for a waiver.

During the transitional period, branches with a GLC will need to renew the GLC arrangements since there will be no automatic extension of existing GLCs.

Our comment/opinion

CP09/14 is the final consultation paper on the new liquidity regime and provides a detailed implementation timetable. No further publications on the new liquidity requirements are now expected from the FSA until September 2009, when the FSA will publish a Policy Statement on the new liquidity regime plus the final version of the rules and reporting requirements.

Although the timetable for implementation has slipped when compared with the original, unrealistic dates proposed in CP08/22, the time line is still tight with systems and controls requirements going live by October 2009. These requirements are extensive and include the need for firms to have in place:

- a robust framework to project cash flows arising from assets, liabilities and off balance sheet items over an appropriate set of time horizons
- a contingency funding plan to deal with a liquidity crisis, which should set down how the firm will meet time critical payments, allocation of roles and responsibilities, escalation procedures and the impact of stressed market conditions on the firm's ability to sell or securitise assets
- the ability to perform stress testing on an institution specific and market wide basis, and to assess the impact of these stresses on cash flows, liquidity position, profitability and solvency
- reliable management information systems to provide the firm's governing body, senior managers and other appropriate personnel with timely and forward-looking information on the liquidity position of the firm

Firms will then need to be in a position to apply the quantitative and reporting requirements of the new regime and with the go live date for a large number of firms in April and July 2010, this leaves less than a year to implement the significant new reporting and more extensive stress testing requirements required for the ILAS.

Many firms have been delaying work on the new liquidity requirements in expectation of the publication of this transitional provision consultation paper. With detailed implementation timetables and the full set of rules and reporting requirements now published, now is the time to take action on this.



Centre of Risk & Regulatory Excellence

The FRSGlobal solution for liquidity reporting

FRSGlobal will be providing a full solution for liquidity reporting in our product, including the full set of final reports for submission to the regulator. In addition to the reporting requirements, our Liquidity Stress Engine provides the necessary functionality to allow customers to run the stress tests required under the regime.

FRSGlobal's product and development teams have been performing initial analysis and development activity since the proposals were first published in CP 08/22, and based on the report templates and rules now available in draft form, we expect to make available a solution by the end of June 2009 to allow client firms to make the necessary interfacing changes to be ready for the tight deadlines set by the FSA.

The solution will be validated through a working group of senior and active users, which has already been established to assist us to meet this challenge.

This solution will utilise the proven capability of;

- our global data model, DataFoundation, to meet the data requirements based on a common view of the data, which enables both stress testing and regulatory reporting to be performed using the same set of data.
- our RegPro solution to meet the reporting requirements, and
- our RiskPro solution to address the mandated stress testing.

Details of these solution components can be found on our website at www.frsglobal.com.

Copyright © 2009 FRS Belgium NV ("FRSGlobal"). All rights reserved. All other registered or unregistered trademarks and service marks are property of their respective companies and should be treated as such. No part of this publication may be reproduced, transcribed, transmitted, stored in a retrieval system, computer or otherwise, in any form or by any means, magnetic, mechanical, electronic, optical, manual or otherwise, and may not be translated into any language without the express written permission of FRSGlobal.



FRSGlobal is dedicated to providing risk and regulatory solutions to create stability and renewed growth in the financial sector

FRSGlobal is the only supplier of a unified risk and regulatory platform that provides firms with an enterprise-wide risk profitability analysis and global regulatory reporting solution sharing a common DataFoundation and CalculationEngine to satisfy both internal and external stakeholders.

We provide over 1500 financial organisations – including 41 of the top 50 banking institutions.

FRSGlobal customers receive software and rich regulatory content for 30+ countries that is fully supported by the FRSGlobal Guarantee, which ensures that the reports under subscription are kept fully up-to-date with regulators' requirements.

FRSGlobal Centre of Risk & Regulatory Excellence (CoR²E) monitors the changes that affect risk and reporting requirements in more than 100 countries. www.frsglobal.com