

FSA update - March 09



FSA LIQUIDITY REQUIREMENTS UPDATE

Introduction

On 8th June, the FSA published CP09/14 Strengthening Liquidity Standards 3: Liquidity transitional measures.

The CP sets out the FSA's proposals for transitional measures which are intended to aid the implementation of the new liquidity regime.

The provisions are designed to allow most firms extra time to prepare for the new regime and allow them to consider whether a waiver/modification would be appropriate.

The FSA is proposing a phased approach for various elements of the new regime (systems and controls, quantitative requirements and reporting) which will be differentiated by each class of firm falling within the requirements.

Systems and controls requirements

These are relevant to all firms within the scope of the new liquidity requirements and as set out in CP08/22 are designed to lead to an improvement in liquidity risk management.

As the FSA view these requirements as being fundamental in nature, there are no transitional measures proposed, and therefore all firms will

need to comply from the fourth quarter of 2009.

The exception to this is for UK branches of overseas banks that currently have a Global Liquidity Concession (GLC) and they will be subject to these requirements from September 2010.

Quantitative requirements

These are relevant only to ILAS firms (therefore limited licence and limited activity BIPRU investment firms are excluded) and as set out in CP08/22 include:

Individual Liquidity Adequacy Standards (ILAS) within which the FSA will issue Individual Liquidity Guidance (ILG)

Standardised options where specified criteria are met, applying to simpler firms

Proposed standards for the quality and quantity of liquid assets to be held

The FSA have proposed to provide ILAS firms with transitional measures as they move to the new regime.

They have indicated that the proposed overall liquidity adequacy rule (including the self sufficiency requirement) will not apply during the transitional period. Instead, the adequate financial resources rule applies.

The proposals for liquidity buffers (from which a firm should be able to

meet their long term needs for a defined period) show a gradual phasing in of the total amount, rather than an immediate requirement for a firm to hold the full amount of the buffer from the outset of the new regime.

The proposals indicate a rise from 30% in year 1, to 50% in year 2, 70% in year 3 and then 100% from year 4 of the final figures.

Reporting

The consultation period regarding reporting is still open until 15 July 2009, and so no further details are given regarding the timetable for reporting under the new regime.

It is however expected that the reporting requirements will be in line with the transitional arrangements i.e. the reporting requirements will begin as each class of firm becomes subject to the new regime.

Supervisory Approach through to Economic Recovery

The FSA have indicated that their starting point for ILG will be to set guidance reflecting the current economic position and the general liquidity position of the banking system at present. They will consider this as a 'low level backstop'.

Once all firms have been provided with this initial guidance, further ILAS assessments will be undertaken to assess and agree with firms the level of liquidity they require in the long term.

Non ILAS firms

Systems and controls

The FSA have indicated that they are working with trade associations, and are looking to develop some industry guidance on the systems and controls requirements as applicable to limited licence and limited activity investment firms.

This is expected to be published in the 3rd/4th quarter of 2009.

Reporting Requirements

Non ILAS firms are not subject to the detailed reporting requirements proposed.

However, in a similar way to the FSA019 form, they will be required to complete an annual report on their compliance with the systems and controls requirements.

Timetable to implementation

The consultation of the transitional measures ends of 31 July 2009 and the FSA expect to publish a policy statement setting out the finalised liquidity regime including reporting rules and transitional arrangements in the third quarter of 2009, with the new requirements beginning to be implemented from the start of the fourth quarter of 2009.

Appendix I

Transitional Measures for BIPRU Investment Firms

Policy	Deadline for implementation	
	Full Scope Investment Firm	Limited Licence/Limited Activity Investment Firm
Systems and controls requirements	1 October 2009	1 October 2009
Quantitative requirements	September 2010	N/A – outside scope of requirements
Detailed reporting requirements	September 2010	N/A – outside scope of requirements
Annual reporting requirements	31 December 2010	31 December 2010

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