

# PS13/1

Financial Services Authority

## Removing the simplified ILAS BIPRU firm automatic scalar and other minor changes to BIPRU 12



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This Policy Statement reports on the main issues arising from Consultation Paper 12/31 (*Removing the simplified ILAS BIPRU firm automatic scalar and other minor changes to BIPRU 12*) and publishes final rules.

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# Abbreviations used in this paper

<b>BIPRU</b>	The Prudential sourcebook for Banks, Building Societies and Investment Firms
<b>CBA</b>	Cost benefit analysis
<b>CP</b>	Consultation Paper
<b>FCA</b>	Financial Conduct Authority
<b>FSA</b>	Financial Services Authority
<b>ILAS</b>	Individual Liquidity Adequacy Standards
<b>PRA</b>	Prudential Regulation Authority
<b>SUP</b>	The Supervision manual
<b>TP29</b>	BIPRU transitional provision 29



# 1

## Overview

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### Introduction

- 1.1 In Consultation Paper (CP) 12/31, *Removing the Simplified ILAS BIPRU Firm Automatic Scalar and Other Minor Changes to BIPRU 12*, published in November 2012, we consulted on three different areas of liquidity policy: The simplified ILAS BIPRU firm automatic scalar, the BIPRU 12.7 liquid assets buffer eligibility restrictions and the SUP 16 annex 25 reporting guidance.

### Background

#### The simplified ILAS BIPRU firm automatic scalar

- 1.2 A simplified ILAS BIPRU firm must calculate the size of its simplified buffer requirement in line with our rules – BIPRU 12.6.9R to BIPRU 12.6.18R. Simplified ILAS BIPRU firms are also subject to BIPRU TP 29 between 1 December 2009 and 31 December 2015 which establishes a transitional period. During this, simplified ILAS BIPRU firms must increase their liquid assets buffers. Currently, these firms must ensure that their liquid assets buffer is no less than 50% of the amount of their simplified buffer requirement. This is due to increase to 70% of the simplified buffer requirement from 1 July 2013 and to 100% from 1 January 2016.
- 1.3 In CP12/31 we consulted on our proposal to delete BIPRU TP29 and to amend the simplified buffer requirement. The intention is that a simplified ILAS BIPRU firm must continue to ensure that its liquid assets buffer is no less than 50% of the current simplified buffer requirement and that the requirement will not increase to 70% and to 100% in 2013 and 2016 respectively.

1.4 We asked:

*Q1: Do you agree with the proposal to delete BIPRU TP29 and require simplified ILAS BIPRU firms to hold a liquid assets buffer of at least 50% of the current simplified buffer requirement?*

### **The BIPRU 12.7 liquid assets buffer eligibility restrictions**

1.5 Our rules establish the types of assets that ILAS BIPRU firms may include in their liquid assets buffers (see BIPRU 12.7.2R). Additional credit quality and currency denomination restrictions are present in the rules in relation to high-quality debt securities issued by a government or central bank, reserves in the form of sight deposits with certain central banks, and investments in designated money market funds. However, such restrictions are not placed on the securities issued by a designated multilateral development bank.

1.6 This is what we wanted to change. So in CP12/31 we consulted to add a new rule so that restrictions similar to those that apply to government and central bank issued securities and central bank sight deposits also apply to securities issued by a designated multilateral development bank.

1.7 We asked:

*Q2: Do you agree with the proposal to amend BIPRU 12.7 to include credit quality and currency restrictions to securities issued by designated multilateral development banks?*

### **The SUP 16 annex 25 reporting guidance**

1.8 In CP12/31 we proposed to amend three cross-referencing errors currently present in the SUP 16 Annex 25 Guidance notes for data items in SUP 16 Annex 24R. Specifically we will amend:

- the cross-reference in data item FSA048 line 50 currently referring to line 70 so it refers to line 71;
- the reference in data item FSA048 Part 2 referring to repos and reverse repos in lines 25–30 and 34–39 to correct ‘or’ to ‘of’; and
- finally, the reference in data item FSA053 to report the analysis of lines 52 and 53 in data item FSA048 in line 6–9 of data item FSA053 will be amended to lines 6–10 of data item FSA053.



1.9 We asked:

*Q3: Do you agree with the proposal to correct these errors?*

## **Summary of feedback and our response**

1.10 We received two responses to CP12/31, both supporting the proposals. So we intend to implement the amendments we consulted on in CP12/31 with no changes to the consultative instrument draft.

## **Compatibility statement**

1.11 We consider that the compatibility statement in Annex 2 to CP12/31 is still valid and does not need to be amended.

## **Cost benefit analysis**

1.12 CP12/31 included a cost benefit analysis (CBA); we have received no evidence that changes the conclusions reached in the CBA. We do not believe the new or amended rule will result in significant costs. So, the CBA published in CP12/31 continues to apply.

## **Next steps**

### **Timing**

1.13 The rule additions and amendments proposed in CP12/31 and as set out in this Policy Statement will be implemented through Handbook Notice 126 and in force from 21 January 2013.



## Annex 1

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# List of non-confidential respondents

Building Societies Association

The Investment Management Association



## Appendix 1

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# Made rules (legal instrument)

**LIQUIDITY STANDARDS (MISCELLANEOUS AMENDMENTS NO 7)  
INSTRUMENT 2013**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
  - (2) section 156 (General supplementary powers); and
  - (3) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 21 January 2013.

**Amendments to the Handbook**

- D. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex A to this instrument.
- E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Liquidity Standards (Miscellaneous Amendments No 7) Instrument 2013.

By order of the Board  
17 January 2013

## Annex A

**Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

## 12.6 Simplified ILAS

...

- 12.6.9 R (1) A *simplified ILAS BIPRU firm* must ensure that the size of its liquid assets buffer is at all times greater than or equal to 50% of the amount produced by adding:

...

...

...

- 12.6.17 G In mathematical terms the calculation *BIPRU 12.6.9R* and *BIPRU 12.6.16R* may be represented as follows:

$\text{Liquidity Buffer} \geq (\text{Wholesale net cash outflow component} + \text{Retail and SME deposit component} + \text{Credit pipeline component}) \times 0.5$
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...
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...

## 12.7 Liquid assets buffer

...

- 12.7.6A R For the purpose of *BIPRU 12.7.2R(2)*, a *firm* may not include securities issued by a *designated multilateral development bank* unless:
- (1) the *designated multilateral development bank* in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with *credit quality step 1* in the *credit quality assessment scale* published by the *FSA* for the purpose of *BIPRU 3 (The Standardised Approach: mapping of the ECAIs' credit assessments to credit quality steps (Long term mapping))*; and
  - (2) those securities are denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.

...

**TP 29 Liquid assets buffer scalar: simplified ILAS BIPRU firms**

## Application

29.1 R ~~*BIPRU TP 29 applies to a simplified ILAS BIPRU firm.*~~ [deleted]

## Duration of transitional provisions

29.2 R ~~*BIPRU TP 29 applies from 1 December 2009 until 31 December 2015.*~~  
[deleted]

## Transitional provisions

- 29.3 R ~~*A simplified ILAS BIPRU firm falling into BIPRU TP 29.1 must ensure that:*~~
- ~~(1) *at all times between 1 October 2010 and, 29 February 2012, its liquid assets buffer is no less than 30% of the amount of its simplified buffer requirement;*~~
  - ~~(2) *at all times between 1 March 2012 and 30 June 2013, its liquid assets buffer is no less than 50% of its simplified buffer requirement; and*~~
  - ~~(3) *at all times between 1 July 2013 and 31 December 2015, its liquid assets buffer is no less than 70% of its simplified buffer requirement.*~~ [deleted]
- 29.4 G ~~*The effect of BIPRU TP 29.3 is that a firm that is a simplified ILAS BIPRU firm has a transitional period until 31 December 2015 to build up its liquid assets buffer so that at the end of that period it holds in its buffer assets equal to 100% of its simplified buffer requirement.*~~ [deleted]
- 29.5 G ~~*In relation to a firm which becomes a simplified ILAS BIPRU firm after 25 March 2011, the FSA will consider as part of that firm's simplified ILAS waiver application how to apply the scalar approach described in BIPRU TP 29.3 to the firm in question. The FSA will incorporate the scalar into the terms of the firm's simplified ILAS waiver.*~~ [deleted]

...



## Annex B

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### **16 Annex 25G          Guidance notes for data items in SUP 16 Annex 24R**

...

#### **FSA048          Enhanced Mismatch Report**

...

#### **Part 2 Security, transferable whole-loan and commodity flows**

...

#### Repos, reverse repos, securities loans and collateral swaps:

...

In the case ~~of~~ of reverse repos and repos corresponding cash outflows and inflows should be reported in lines 25 to 30 and lines 34 to 39 as appropriate.

...

#### **50 Conditional liabilities pre-trigger contractual profile**

...

In addition to reporting in this line, a *firm* should further breakdown the liabilities where those triggers are dependent on its credit rating, in the appropriate *data element* on line ~~70~~ 71.

...

#### **FSA053          Retail, SME and Large Enterprises Type B Funding**

...

#### **Part 2 SME and large enterprises Type B**

A *firm* should report information related to the SME and Large financial Enterprise (Type B) accounts reported in lines 52 and 53 of FSA 048 in rows 6 to ~~9~~ 10.



## Appendix 2

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# Designation of Handbook Provisions

FSA Handbook provisions will be ‘designated’ to create a FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website<sup>1</sup> for further details about this process.

We plan to designate the Handbook Provisions which we are creating or amending within this Policy Statement as follows. These designations are draft and are subject to change prior to the new regulators exercising their legal powers.

Handbook Provision	Designation
BIPRU 12.6.9R	FCA and PRA
BIPRU 12.7.6AR	FCA and PRA
BIPRU 12.6.17G	FCA and PRA
BIPRU TP29	FCA and PRA
SUP 16 Annex 25G	FCA and PRA

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<sup>1</sup> One-minute guide <http://media.fsahandbook.info/latestNews/One-minute%20guide.pdf>

**PUB REF: 003147**

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