

Policy Statement | PS11/15  
**CRD IV: Liquidity**

June 2015



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
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This policy statement contains the final rules and supervisory statement to accommodate the introduction of the European Union Liquidity Coverage Requirement of CRD IV.



## 1 Introduction

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) sets out the PRA's final rules and supervisory statement (SS24/15) and provides feedback on responses to the proposals in CP27/14 (CP)<sup>(1)</sup> to accommodate the European Commission's delegated act with regard to the liquidity coverage requirement (LCR) for credit institutions ('Delegated Act').<sup>(2)</sup>

1.2 This PS is relevant to UK banks, building societies and PRA UK-designated investment firms; third-country firms that are banks or designated investment firms; and European Economic Area (EEA) credit institutions that have a branch in the United Kingdom.

1.3 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to the proposals in the consultation, and publish an account, in general terms, of those representations and its response to them.<sup>(3)</sup>

1.4 The PRA received 24 responses to the CP from a wide range of UK and overseas firms, and trade associations. The feedback received varied, with some proposals being fully supported by respondents, while other proposals received strong resistance. Feedback also varied according to the nature, size and business model of the respondent.

1.5 This PS sets out the PRA's response to the most significant issues raised, and notes those areas where the PRA is making a change to the draft rules or supervisory statement from the CP. Where the PRA received minor comments on its proposals readers should assume that the proposed changes have been put in place. In some cases, respondents asked questions specific to the circumstances of their firm. In these cases the firm's supervisor has been notified and will make contact in due course.

1.6 The final PRA rules and supervisory statement in this PS will come into force on 1 October 2015, except where otherwise specified.

1.7 The PRA's final rules are contained in Appendices 1A–1C, and the supervisory statement 'The PRA's approach to supervising liquidity and funding risks' (SS24/15) is in Appendix 2.

1.8 The sections below have been structured broadly along the same lines as the chapters of the CP, with some areas rearranged to better address related issues. The responses have been grouped as follows:

- switching off BIPRU 12;

- phasing-in the LCR, and additional liquidity requirements;
- liquidity reporting and disclosure;
- liquidity risk management and supervisory review;
- elements of the new regime not covered by EU legislation; and
- cost benefit analysis.

## 2 Switching off BIPRU 12

2.1 The PRA proposed to revoke the liquidity standards contained in Chapter 12 of the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU 12). This included the withdrawal of existing firm-specific guidance on liquid assets buffers contained in firms' individual liquidity guidance (ILG), at the point at which the LCR comes into effect (1 October 2015).

2.2 No specific feedback was raised on the issue of withdrawing the existing firm-specific guidance on liquid assets buffers, but some respondents did comment on the removal of the simplified individual liquidity adequacy standards (simplified ILAS) and on the option for branches to operate on a 'self-sufficient' basis. The former issue is dealt with below, the latter in Section 6.

2.3 Overall, the PRA intends to maintain the position set out in the CP.

### Simplified ILAS

2.4 The PRA proposed that the simplified ILAS regime that was available under BIPRU 12 to firms operating a relatively simple business model would no longer be available and that all firms should carry out an Internal Liquidity Adequacy Assessment Process (ILAAP) under the new rules.

2.5 Some respondents were concerned that this new obligation for small firms would result in a significant burden and was not proportionate. They asked for reassurance that the expectations on small firms to carry out an ILAAP will differ little from the expectations under BIPRU 12 to carry out an Individual Liquidity Systems Assessment (ILSA).

2.6 The PRA's view continues to be that it is appropriate for all firms to do the analysis required under the Individual Liquidity Adequacy Assessment (ILAA) rules, applied in a

(1) PRA Consultation Paper CP27/14, 'CRD IV: Liquidity', November 2014; [www.bankofengland.co.uk/pr/Pages/publications/cp/2014/cp2714.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2014/cp2714.aspx).

(2) Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions; [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2015.011.01.0001.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2015.011.01.0001.01.ENG).

(3) FSMA Section 138J(3).

suitably proportionate way. The PRA expects that the ILAAPs for firms operating a relatively simple business model will not differ materially from what they currently produce for their ILSAs.

### 3 Phasing-in the LCR, and additional liquidity requirements (add-ons)

3.1 This section addresses the level of the LCR during the phase-in period, and additional liquidity requirements on top of the LCR to reflect specific risks not captured in the LCR.

#### Transitional arrangements

3.2 The PRA proposed to set the LCR at 80% from 1 October 2015. This requirement would apply until the end of 2016. The requirement would then rise to 90% on 1 January 2017. It would reach 100% on 1 January 2018, as required by the CRR.

3.3 The PRA also proposed to adopt an interim Pillar 2 approach to reflect risks not captured in the LCR based on firms' existing ILG add-ons. Specifically, where current add-ons relate to risks not captured in the LCR, the PRA proposed to continue applying the add-on at the same absolute amounts as previously. This would mean that firms' fixed add-ons that are applicable on 30 September 2015 would continue to apply at the same absolute amounts from 1 October 2015, with the exception of add-ons relating to prime brokerage and derivatives (which are captured in the LCR).

3.4 Some respondents recognised that the phase-in proposal was appropriate given the current levels of firms' liquid assets buffers and that the proposal would ensure a strong and reliable liquidity regime was in place. One respondent commented that based on their calculations, their LCR ratio would be very considerably below the amount of liquidity that their own board would wish them to carry. However, others commented that the 80% level, combined with the additional requirements to reflect risks not captured in LCR, exceeded the amount required under BIPRU 12 and could adversely affect the supply of lending to the real economy, counter to the Financial Policy Committee's (FPC's) intention when it issued a Recommendation on liquidity to the PRA in June 2013.<sup>(1)</sup>

3.5 The PRA considers that an 80% LCR starting point, with very specific additional requirements on top, remains appropriate and that the risks to lending are limited. It is in line with the levels of liquidity already being maintained by most firms, and the LCR permits a much wider range of liquid assets than the PRA's current regime. Reducing the requirements below the level proposed would allow some firms to reduce their holdings of liquidity potentially to an unsound level.

3.6 The PRA has strengthened the message that firms can draw down their buffers when that is needed and that they should not feel that the PRA expects them to hold buffers on buffers of liquidity.<sup>(2)</sup> This is intended to help to mitigate any risk of an adverse impact on lending. This means it maintains the spirit of previous messaging on this issue by the PRA in response to FPC Recommendations.

3.7 Respondents asked that a Liquidity Supervisory Review and Evaluation Process (L-SREP) be conducted before the application of the add-ons, and requested more clarity on how the Pillar 2 add-ons will be implemented. The PRA can confirm that:

- it does not intend to carry out L-SREPs before October 2015, except where liquidity reviews have already been planned;
- add-ons will be based on firms' ILG add-ons as at 30 September 2015. Where current add-ons relate to risks not captured in the LCR, the PRA will continue applying them at the same absolute amounts as previously; and
- it will communicate precise add-on levels on a firm-by-firm basis, to those firms with existing add-ons, during the summer of 2015.

#### Composition of the add-ons

3.8 The PRA proposed that firms should meet add-ons through holdings of LCR-eligible assets. This would mean that firms would no longer count pre-positioned collateral (PPC) in the Discount Window Facility (DWF) that is not otherwise eligible as a liquid asset. After carefully reviewing the responses to the consultation, the PRA has decided to maintain this proposal.

3.9 Respondents perceived a number of issues with this proposal, including:

- the incentives to maintain PPC for the DWF are reduced as firms lose the benefit of being able to meet the combined LCR with a larger set of assets;
- it seems inconsistent that one part of the Bank of England was encouraging pre-positioning but the PRA would not allow it to contribute to Pillar 2 requirements; and
- it removes a potential relief to the potentially higher costs of the PRA liquidity requirements relative to those of other EU Member States.

3.10 Maintaining the proposal that the types of assets a firm will be allowed to hold to satisfy the PRA's ILG will be no wider than defined in the Delegated Act will deliver a

(1) Bank of England (2013), 'Record of the Financial Policy Meeting', 18 June, page 2; [www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2013/record1307.pdf](http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2013/record1307.pdf).

(2) See Appendix 2.



consistent approach across risks and across firms. There is no difference in the risks being captured by the add-ons to justify weaker eligibility criteria. Allowing firms to meet the add-ons with non-eligible PPC would lead to inconsistency across firms. In effect, the PRA would be holding firms to higher standards if they had proportionately smaller add-ons and if they did not have ready access to the type of assets which are eligible for the DWF but not the LCR. Further, it is not clear that recognising PPC as regulatory liquidity currently is a major driver for pre-positioning. Most firms do not rely on PPC to meet their requirements currently.

3.11 The Bank will continue to encourage and expect firms to have robust levels of pre-positioned assets, including as part of the supervisory review process for liquidity. As part of that, the PRA may provide explicit guidance to individual firms. Firms themselves see the benefit in having large contingent liquidity buffers with the Bank. And pre-positioning collateral has a low opportunity cost, at least for firms that lend to the real economy and have loan assets which they can pledge to the Bank.

## 4 Liquidity reporting and disclosure

4.1 In the CP, the PRA set out its proposals for liquidity reporting, which covered:

- continued reporting of some of the existing Financial Services Authority (FSA) liquidity returns<sup>(1)</sup> for a period until the full suite of COREP<sup>(2)</sup> liquidity returns<sup>(3)</sup> are embedded;
- a rule requiring firms to have systems and processes in place to enable them to submit all liquidity COREP returns daily; and
- asking firms to submit the revised EBA LCR<sup>(4)</sup> template by alternative methods, eg spreadsheets, as an interim solution in the event that reporting on the revised COREP template is delayed until after the LCR is introduced on 1 October 2015.

4.2 The PRA received many comments on these proposals. While respondents agreed in principle with most of the proposals, they also expressed concern that the increased level of reporting would be overly burdensome, disproportionate, and not in harmony with requirements being proposed in other EU Member States.

4.3 The PRA recognises the increased volume of liquidity data that firms will have to report during the transition to the LCR regime, and has made several changes to help alleviate the burden on firms in the final rules and supervisory statement, as set out below.

### FSA liquidity reporting

4.4 The PRA proposed to extend the requirement for firms to report some of the existing FSA liquidity returns for the following periods:

- FSA047 and FSA048: for up to two years after the introduction of the full suite of COREP liquidity returns.
- FSA051 and FSA053: for up to six months after 1 October 2015, unless the additional monitoring metrics (AMM)<sup>(5)</sup> are delayed.
- FSA050, FSA052 and FSA054: cease at the later of 1 October 2015 or the date the additional monitoring metrics (AMM) for liquidity returns start being collected by the PRA.

4.5 The PRA also proposed that reporting for individual entities within UK Defined Liquidity Group (DLG) by modification should end with effect from 1 October 2015.

4.6 Annex A provides a summary of the contents of the FSA returns, with the equivalent AMM return (where applicable).

4.7 Most respondents supported the principle of a period of dual-running FSA and COREP reporting to enable the transition between regimes to progress smoothly, but felt that the periods being proposed were too long and would result in significant IT cost and unnecessary additional management oversight. Respondents proposed that the PRA reduce the dual-running period and also that it considered reducing the frequency of reporting.

4.8 The final rules and supervisory statement have been updated for the changes set out below.

### FSA047 and FSA048

4.9 The PRA considers that there is a strong prudential case for maintaining the FSA047 and FSA048 returns for a period,

(1) FSA047, FSA048, and FSA050 to FSA054.

(2) The EU's common supervisory reporting framework: Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

(3) Comprising the COREP LCR return, the additional liquidity monitoring metrics (AMM), and the stable funding return.

(4) Following the European Commission's adoption of the Delegated Act the EBA has launched a consultation on 16 December 2014 on a new set of templates and instructions to capture all necessary LCR items according to the Delegated Act, see EBA Consultation Paper Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Liquidity Coverage Ratio (LCR) following the EC's Delegated Act specifying the LCR; <https://www.eba.europa.eu/documents/10180/930269/EBA-CP-2014-45+%28CP+on+draft+amending+ITS+on+LCR+reporting%29.pdf>.

(5) On 24 July 2014 the EBA published FINAL draft implementing technical standards on additional liquidity monitoring metrics under Article 415(3)(b) of Regulation (EU) No 575/2013, [www.eba.europa.eu/documents/10180/531016/EBA-ITS-2013-11+%28Final+draft+ITS+on+additional+monitoring+metrics%29.pdf/49dcb8a0-f2bc-499d-9ca7-ccb5f655a8f](http://www.eba.europa.eu/documents/10180/531016/EBA-ITS-2013-11+%28Final+draft+ITS+on+additional+monitoring+metrics%29.pdf/49dcb8a0-f2bc-499d-9ca7-ccb5f655a8f). These standards have yet to be adopted by the European Commission.

as the data will be needed to help ensure the PRA has adequate sight of liquidity and funding positions during the transition from the old to the new regime. However, to help reduce the burden on firms, the period that these returns will be required is reduced to at least one year from 1 October 2015. The PRA will review this position in 2016 H1, taking into account in particular progress in implementing the contractual maturity ladder (C66.00) within the AMM suite of returns.

4.10 The PRA intends to maintain the current frequency of reporting for FSA047 and FSA048 as it believes to reduce it would dilute the usefulness of receiving the returns.

#### FSA051 and FSA053

4.11 The PRA agrees with respondents that commented that much of the information in FSA returns FSA051 and FSA053 is captured in new AMM returns C 67.00 and C 68.00. The PRA has decided not to require reporting of FSA051 and FSA053 after the date these AMM returns are reported, or 1 October 2015, whichever is the later. The PRA will however expect firms to be able to provide information on Financial Services Compensation Scheme (FSCS) balances and a counterparty breakdown for wholesale counterparties in a stress scenario.

#### FSA050 and FSA052

4.12 The PRA is maintaining the CP proposal regarding FSA050 and FSA052. Firms will not be required to submit these returns once the equivalent AMM returns (C 71.00 and C 69.00 respectively) are reported, or 1 October 2015, whichever is the later.

#### FSA054

4.13 The PRA has decided not to continue requiring firms to report FSA054 from 1 October 2015.

#### Firms in a UK DLG by modification

4.14 In the CP, the PRA proposed to cease the individual reporting requirement for FSA047 to FSA054 for firms in a defined liquidity group by modification from 1 October 2015. The PRA will go ahead with that proposal.

#### EU branches

4.15 From 1 October 2015, responsibility for liquidity supervision of branches of EU credit institutions moves to the home state regulator. Therefore, incoming EU firms with a branch in the United Kingdom will no longer be required to submit liquidity returns from that date. The relevant reporting dates for the last returns that must be submitted to the PRA are 25 September 2015 for weekly returns and 30 September 2015 for monthly returns.

#### Non-EU EEA branches

4.16 Branches of non-EU EEA firms are required to report on the same basis as third-country firms (see Section 6), until the EEA Agreement has been amended by the EEA Joint

Committee with a view of permitting simultaneous application of the CRR liquidity standards in all EEA states. From that point they will be treated like branches of EU firms.

#### UK branches of third-country firms

4.17 Feedback and the PRA's final decision on reporting requirements for UK branches of third-country firms are set out in Section 6.

#### Daily reporting capability

4.18 Although some respondents supported the proposals to require firms to have systems and processes in place to enable them to submit all liquidity COREP returns daily, others expressed concerns such as:

- the increased cost and the difficulty of implementing in the time available;
- daily returns would serve no function for reporting metrics such as the stable funding and AMM, and less frequent reporting would be adequate for those returns; and
- other EU Member States were not implementing daily reporting, and UK firms would be placed at a disadvantage to EU counterparts.

4.19 While all firms should be able to produce key data to allow the PRA to monitor liquidity buffers and contractual and stress-tested cash flows in the event of a crisis, the PRA recognises the points made by respondents. As a result, the PRA has updated its draft supervisory statement for the expectation that firms with a balance sheet total above £5 billion should be able to produce only the following returns on a daily basis: the COREP LCR, contractual maturity ladder (AMM C 66.00) and Rollover (AMM C 70.00) returns (the PRA will not be expecting these in any case from smaller firms). This is consistent with the PRA's proportionate approach to supervision and with its secondary competition objective.

#### Interim LCR reporting

4.20 In the event that reporting on the EBA's amended LCR template<sup>(1)</sup> was delayed until after the LCR is introduced on 1 October 2015, the PRA proposed to collect data on the EBA template via alternative methods for a limited period, for example using Excel spreadsheets. Most firms agreed with this proposal in principle, but asked for further information on how the interim regime would work in practice.

4.21 Some respondents objected to having to provide the current COREP LCR return at the same time as providing data on the new EBA template.

(1) See footnote (4) on page 5 of this document.



4.22 In response to this request, and considering the need for firms to prepare in advance of the introduction of the LCR, the PRA is intending to publish a supervisory statement on interim reporting once the EBA publishes its Draft Implementing Technical Standard amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Liquidity Coverage Ratio (LCR), following the EC's Delegated Act specifying the LCR (see footnote (4) on page 5).

4.23 The interim LCR reporting regime will be based on the EBA's amended templates and instructions on Liquidity Reporting, specifically C72.00–C76.00, in XML format in an Excel spreadsheet. The PRA will ask that reporting be on an all-currency basis only, for the same entity or entities for which firms currently report LCR under the existing liquidity reporting ITS. Firms with assets under £3 billion (on an individual or consolidated basis) will have the option to report only key metrics for liquid assets, net outflows, and the LCR ratio.

### LCR disclosure

4.24 The PRA proposed to delay a decision on a disclosure requirement until the LCR is in effect as a regulatory requirement, supported by appropriate and reliable supervisory reporting, in October 2015.

4.25 Some respondents asked the PRA to clarify whether it will set requirements for end-2015 disclosures and if so what these will be.

4.26 The PRA supports disclosure of information necessary for investors to understand a firm's LCR position. However, it is also concerned that the disclosure of certain information could put at risk central banks' ability to provide liquidity assistance without that becoming apparent in the short term. The PRA is considering how to balance these objectives, and will not be making any further disclosure requirements or expectations for end-2015.

4.27 As set out in CP27/14, the PRA confirms that it does not expect firms to disclose more information than they did previously, and it expects them not to disclose information that could lead to premature disclosure of covert liquidity assistance (were such assistance to be provided) unless they are under a legal obligation to do so.

## 5 Liquidity risk management and supervisory review

5.1 This section sets out the PRA's feedback to the CP and final decisions on how firms should manage their liquidity and funding risk and the supervisory review process. It covers the CP proposals in the following areas:

- the level of application of the ILAA rules;
- BIPRU 12 rules carried forward and deleted;
- the L-SREP;
- setting individual liquidity guidance; and
- managing high-quality liquid assets (HQLA) buffers.

5.2 The PRA's feedback to the responses received and its policy decisions are set out below.

### Level of application of the ILAA rules

5.3 The PRA proposed that the ILAAP rules will apply on an individual basis, a consolidated basis, and a sub-consolidated basis where appropriate.

5.4 One respondent felt it was unclear what the PRA would expect an ILAAP document on a consolidated basis to contain, and asked for clarity on whether internal stress testing would be required in the case where the individual operating subsidiaries within the group are not contractually obliged to provide liquidity to one another (ie they do not form a Defined Liquidity Group, as per BIPRU 12).

5.5 Where the PRA is the consolidating supervisor, a firm must comply with the ILAA rules on a consolidated basis. The PRA does not expect firms to repeat, and record in its ILAAP document, analysis unnecessarily at the different levels (eg at the level of individual firms and at the consolidated level). One issue which the PRA will expect firms to take into account in the consolidated assessment is whether there are any constraints on the transferability of liquidity between entities under stress, across business lines, countries and currencies.

### BIPRU rules carried forward and deleted

5.6 As set out in Section 2, the PRA intends to revoke BIPRU 12. However, in the CP, it set out the rules that it intended to carry forward that would be relevant to the new regime. These included rules covering:

- the overall liquidity adequacy rule (OLAR);
- specific aspects of liquidity risk management (ie those rules that implement Capital Requirements Directive (CRD)<sup>(1)</sup> Article 86);
- stress testing;
- ILAAP; and
- asset encumbrance.

5.7 Set out below are the responses the PRA received to these proposals, and its feedback. The PRA received several comments on the rules that it proposed to delete, in particular on the removal of the simplified ILAS regime. This has been addressed in Section 2 of this PS.

(1) Directive 2013/36/Eu of the European Parliament and of the Council of 26 June 2013, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:EN:PDF>.

## OLAR and liquidity risk management

5.8 One respondent acknowledged the benefit in firms coming to a view themselves how much liquidity they should hold through board discussion and by reference to their own risk appetite. But this respondent asked for some quantified guideline and benchmark stress tests that they may adopt.

5.9 While finding the guidance in the draft supervisory statement on the PRA's expectations of firms' liquidity risk management useful, one respondent highlighted that small firms may have less access to the kinds of information required to understand the level of stress that might be encountered, and suggested that the PRA provide further assistance in this area.

5.10 The PRA expects firms to articulate for themselves the amount of risk they are willing to take. For the PRA to provide more detailed guidance of the type requested would not be consistent with this principle.

## Stress testing

5.11 In the CP, the PRA proposed some changes to its rules, and introduced material in a supervisory statement, with regard to risk drivers:

- there would no longer be a standardised stress test of the type set out in BIPRU 12.5;
- the draft supervisory statement provided guidance to capture the granularity and common language that the risk drivers have brought to the process of managing liquidity risk that would have been lost in the rules deleted from BIPRU 12.5; and
- the list of risk drivers contained in the draft supervisory statement combined the risk drivers listed in the EBA SREP Guidelines<sup>(1)</sup> and some additional risk drivers listed in the proposed rules, including internalisation risk (where applicable).

5.12 Some respondents recognised the need for firms to take responsibility to manage their liquidity risk and felt that the risk drivers were comprehensive and appropriate. One respondent suggested that the removal of the requirement to perform a standardised stress test would lead to a lack of consistency across sectors and a variety of approaches being taken to stress testing. And some respondents asked for more detailed guidance on stress testing, including:

- what the PRA meant in the CP by 'severe but plausible stresses';
- whether the PRA could provide a clear steer as to the important risk drivers, and a selection of standard stress scenarios, that are relevant to them;

- whether firms could use HQLA for meeting stressed outflows in their internal stress scenarios, as well as for meeting the LCR;
- whether internal stress tests could also be modelled using the LCR survival period of a 30-day stress scenario or whether the PRA would require additional liquidity to be included in Pillar 2 based on a 90-day survival period; and
- whether a firm could apply a glide path to the liquidity requirements it calculates in its internal stress tests, in line with its current ILG.

5.13 The PRA expects firms to articulate for themselves the amount of risk they are willing to take and to analyse their own liquidity risk. For the PRA to provide specific guidance on the stress scenarios firms should use or which risk drivers are applicable for particular firms would be inconsistent with these principles. Firms should make their own assumptions about what assets would be liquid and what are appropriate stress horizons.

5.14 One respondent asked for more guidance on internalisation risk, and asked whether the PRA could provide further clarity on the businesses and situations in which it would see internalisation risk crystallising, such as with traditional or synthetic prime brokerage.

5.15 The same respondent asked what the PRA would consider as the quality of the collateral subject to internal coverage, ie would it be correct to assume that this relates only to non-HQLA assets.

5.16 The PRA confirms that this risk is relevant both for traditional and synthetic prime brokerage, as noted in SS24/15. The LCR provides a standard outflow factor for secured funding arising from covering customer short positions with other customers' collateral that is non-HQLA. However, the PRA also expects firms to have in place liquidity risk management procedures aligned to the complexity of their prime brokerage activities. It also expects that associated liquidity outflows are captured as part of internal stress testing.

## ILAAP

5.17 In its ILAAP document, a firm records its assessment of its overall liquidity adequacy and, more generally, of its compliance with the ILAAP rules.

(1) Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP), 19 December 2014, [www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/4b842c7e-3294-4947-94cd-ad7f94405d66](http://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/4b842c7e-3294-4947-94cd-ad7f94405d66).

5.18 Respondents asked when firms should switch from ILAA to ILAAP. The PRA expects that all firms will have transitioned their existing ILAA document to a board approved ILAAP document by October 2016, ie one year after the new rules come into effect. The PRA expects firms to transition the document at their next annual review date or sooner. If an L-SREP is conducted on the basis of the firm's existing ILAA before October 2016, the PRA may request additional information prior to the review.

5.19 The PRA has reflected this guidance in SS24/15 and included further material on the transition to the L-SREP process and an ILAAP template.

### L-SREP

5.20 In the CP, the PRA set out its approach to the L-SREP and noted that it plans to undertake further policy development regarding the Pillar 2 framework.

5.21 Some respondents asked that the PRA fully consults the industry on this, and any other areas of national discretion. The PRA confirms that it will engage openly and transparently with industry in the development of its approach.

5.22 One respondent asked whether, for firms which had not previously been set add-ons, the PRA would use Pillar 2 to increase liquidity requirements for individual firms back up to current levels, if they would otherwise be lower under LCR. The PRA can confirm that to the extent that it sets add-ons for firms which have not previously had them, it will not do so with the express intention of recouping any reduction in liquidity requirements in the transition to LCR. Rather, its approach will focus on assessing and capturing risks which are not adequately captured in the LCR.

### Setting ILG

5.23 The PRA set out in the draft supervisory statement the typical elements that, following the L-SREP, the firm's liquidity guidance may contain.

5.24 Some respondents raised points in respect of the PRA's proposals for interim Pillar 2 add-ons. These are addressed in Section 3 above.

### Managing HQLA buffers

5.25 This section of the CP reminded firms of their obligations under the Delegated Act regarding managing their HQLA buffers, including:

- diversification of the HQLA buffer; and
- ensuring that the currency of assets is not an obstacle when meeting outflows.

5.26 Responses to this section of the CP were generally positive. One respondent asked for the PRA to outline its

approach to currencies as the intention of the Basel Committee on Banking Supervision when developing the LCR metric was for it to be applied on an all-currency basis.

5.27 The PRA has nothing to add on this issue at this time beyond noting the requirement in the Delegated Act that the currency denomination of a firm's liquid assets is consistent with the distribution by currency of its net liquidity outflows, and that firms are required to take into account risks from currency mismatch in their stress testing.

5.28 With reference to the Delegated Act requirement that haircuts of at least 7% be applied on covered bonds treated as Level 1 assets, one respondent asked if the PRA intends to impose additional haircuts on Level 1 covered bonds above the 7% threshold.

5.29 The PRA has no plans to impose additional haircuts on Level 1 covered bonds.

### Shari'ah-compliant firms

5.30 The PRA received no comments on its expectations regarding Shari'ah-compliant firms.

### Collateral placed at the Bank

5.31 As noted in Section 3 above, the PRA proposed that a firm can count assets pre-positioned at the Bank of England to meet the PRA's quantitative individual liquidity guidance if these assets are eligible for inclusion in the HQLA buffer under the Delegated Act. This would mean that if pre-positioned assets are not eligible for inclusion in the HQLA, they cannot be used to meet the PRA's quantitative liquidity guidance.

5.32 Two respondents asked if the PRA would consider making changes to allow DWF to be considered as a restricted-use committed liquidity facility eligible as a level 2B liquid asset (Delegated Act Article 14). Following the reforms to the DWF introduced in October 2013,<sup>(1)</sup> the Bank has no plans to alter the terms of the DWF to make it eligible as a restricted-use committed liquidity facility.

5.33 One respondent highlighted a line in the EBA's LCR reporting template:<sup>(2)</sup> *'standby credit facilities granted by central banks within the scope of monetary policy to the extent that these facilities are not collateralised by liquid assets and excluding emergency liquidity assistance'*. The respondent asked whether loan collateral pre-positioned for use in the Bank's facilities would meet this definition. This item does not form part of the EU LCR standard as specified in the Delegated Act, so will not be eligible as HQLA.

(1) 'Liquidity insurance at the Bank of England: developments in the Sterling Monetary Framework', October 2013; [www.bankofengland.co.uk/markets/Documents/money/publications/liquidityinsurance.pdf](http://www.bankofengland.co.uk/markets/Documents/money/publications/liquidityinsurance.pdf).

(2) See footnote (4) on page 5.

## 6 Elements of the new regime not covered by EU legislation

6.1 This section sets out the PRA's feedback to responses and its final policy in relation to its approach to entities that are not covered by the Delegated Act:

- investment firms; and
- UK branches of third-country firms.

### Investment firms

6.2 As explained in the CP, the Delegated Act does not apply to investment firms. The PRA proposed to set the same requirements for UK-designated investment firms as the requirements contained in the Delegated Act in order to bring obligations for such firms into line with those applying to UK banks and building societies. The PRA also proposed that those requirements would apply both on an individual and consolidated level, in line with the general level of application of the liquidity standards in Part 6 of the CRR.

6.3 The PRA also proposed to exercise the discretions contained in CRR Articles 6(4) and 11(3) to avoid the situation where UK-designated investment firms would have to submit both the original (ie current) and amended versions of the COREP LCR return.<sup>(1)</sup> The PRA proposed that UK-designated investment firms would cease to provide the original COREP LCR return from 1 October 2015, and to report the amended LCR return from the time when that becomes mandatory for credit institutions.

6.4 The PRA is adopting the proposals set out in CP27/14.

6.5 One respondent asked about the PRA's interaction with the European Commission's review on the applicability of the LCR to investment firms. The PRA will engage with the Commission as appropriate.

### UK branches of third-country firms

6.6 The PRA proposed that relevant third-country firms with UK branches be subject to a requirement to provide liquidity information on a whole-firm basis, in the form of monthly COREP LCR and AMM Contractual Maturity Ladder returns, commencing six months after the implementation of the LCR, and that they should apply for permission to waive the monthly reporting requirement.

6.7 The PRA also proposed that, until the EEA Agreement was amended by the EEA Joint Committee with a view to permitting simultaneous application of the CRR liquidity standards in all EEA states, it would treat UK branches of non-EU EEA credit institutions or designated investment firms in the same way as UK branches of relevant third-country firms.

6.8 In addition, all such firms would be required to continue reporting the regulatory returns FSA047, FSA048, FSA051 and FSA053 where applicable, in line with the PRA's proposals for UK banks, building societies and UK-designated investment firms.

6.9 Several respondents proposed that third-country branches be permitted to report their whole-firm liquidity information on the basis of their home state liquidity reporting regime, and that the costs of creating IT systems to use COREP reporting would be disproportionately high, and possibly force some banks to subsidiarise, potentially 'trapping capital and liquidity'. One respondent also asked if the PRA could allow a trial period for the new COREP templates to be introduced for monitoring the LCR of the firm.

6.10 Some respondents suggested that if a branch did not fall within the PRA's risk appetite for non-EEA branches and was required to subsidiarise, it would be unreasonable for them to incur the cost of developing whole-firm reporting systems when this would become redundant upon the establishment of a subsidiary.

6.11 Another respondent questioned whether providing whole-firm liquidity data through the EU COREP LCR template would constitute 'shadow supervision' on the part of the PRA.

6.12 One respondent asked if the PRA was proposing any new requirements for third-country branches beyond the reporting of liquidity information on a whole-firm basis through submission of FSA047 and FSA048, the new LCR template, and the maturity ladder template.

6.13 The PRA considers that firms have raised material issues and provided new information around the burden involved in moving to the regime proposed in the CP. Although the PRA maintains that it is appropriate to collect liquidity information at the whole-firm level, it has decided that this should be based on data which are reported to the firm's home state supervisor. That is, the PRA will not require data to be specially produced using the EU reporting definitions and templates as it had proposed in the CP. Firms should report these data on a periodic (infrequent) basis in normal times, and they should be able to provide them on a daily basis when necessary.

6.14 The PRA will confirm the specific details at a future date.

6.15 With regard to new requirements beyond the reporting of liquidity information on a whole-firm basis, the PRA will not

(1) Consultation Paper, Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Liquidity Coverage Ratio (LCR) following the EC's Delegated Act specifying the LCR, EBA, December 2014, <https://www.eba.europa.eu/-/eba-consults-on-amending-its-on-lcr-and-lr-reporting>.

set additional requirements beyond those already announced as part of the PRA's new approach to supervising branches.<sup>(1)</sup>

6.16 The PRA's final decision for FSA reporting by third-country firms is set out below. There are variations for those firms with a whole firm liquidity modification (WFLM) and those that are self-sufficient.

#### Third-country firms with a WFLM

6.17 UK branches of third-country firms with a WFLM will be required to continue submitting the returns FSA047 and FSA048 until these returns are discontinued for UK firms (see Section 4). These firms do not currently submit returns FSA050 to FSA054.

#### Self-sufficient third-country firms

6.18 Self-sufficient branches' reporting of FSA047, FSA048, and FSA050 to FSA054 will cease as of 1 October 2015.

## 7 Cost benefit analysis (CBA)

7.1 In the CP, the PRA set out its analysis of the costs and benefits of implementing the new liquidity regime.

7.2 One respondent raised a question on the CBA. They expressed concern that the move from the BIPRU 12 regime to the LCR regime may lead to lower liquidity requirements for

some banks, including the large incumbent banks which benefit from significant amounts of stable low-cost funding through their dominance of the personal current account market. This respondent argued that the PRA should give consideration to the possible unintended consequence that some banks might alter their liquidity risk appetite to take advantage of the new requirements, while other banks that maintain a prudent approach to liquidity might find themselves at a competitive disadvantage. The respondent also suggested that this potential problem could be alleviated through Pillar 2 liquidity add-ons, requiring banks to exceed a 'floor' level of liquidity in the way that a capital floor was set when Basel II was introduced, to avoid a significant drop in capital requirements.

7.3 With respect to the level of requirements, the PRA does not consider that large banks will systematically experience a reduction in liquidity requirements when the LCR is introduced. The PRA has chosen the implementation level having regard to the current levels (see Section 3). In the context of the PRA's proposals and with the introduction of the LCR at 80%, the creation of a 'floor' level of liquidity through Pillar 2 add-ons does not appear necessary. Further, all firms are required to maintain liquidity resources which are adequate to ensure that there is no significant risk that its liabilities cannot be met as they fall due (the OLAR).

(1) *PRA Policy Statement PS8/15*, 'Supervising international banks: the branch return', April 2015; [www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps815.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps815.aspx).

## Annex A: Summary of contents of FSA liquidity returns against AMM returns

FSA Return	Scope of FSA return	Equivalent AMM return	Scope of AMM return
FSA047 — Daily Flows	<ul style="list-style-type: none"> <li>Daily liquidity flows over a 90-day period.</li> </ul>	C 66.00 — CONTRACTUAL TEMPLATE	<ul style="list-style-type: none"> <li>Contractual maturity mismatch table which provides insight into the extent to which a bank relies on maturity transformation under its current contracts.</li> <li>Includes time buckets for up to ten years.</li> </ul>
FSA048 — Enhanced Mismatch Report	<ul style="list-style-type: none"> <li>Identifies mismatches.</li> <li>Splits liquidity flows into ten maturity time buckets (unencumbered, open maturity, &lt;=2 weeks,..., &gt;5 years)</li> </ul>		
FSA050 — Liquidity Buffer Qualifying Securities	<ul style="list-style-type: none"> <li>Holdings of unencumbered assets eligible for inclusion in its liquid assets buffer as defined in BIPRU 12.7.</li> </ul>	C 71.00 — CONCENTRATION OF COUNTERBALANCING CAPACITY BY ISSUER/COUNTERPARTY	<ul style="list-style-type: none"> <li>Concentration of counterbalancing capacity (liquidity buffer) by the ten largest holdings of assets or liquidity lines granted to the institution for this purpose.</li> <li>Includes counterparty, their country of residence, the product type, its currency and its credit quality.</li> </ul>
FSA051 — Funding Concentration	<ul style="list-style-type: none"> <li>Concentration of funding by counterparty — amount received and weighted average maturity, split by wholesale funding and repo funding.</li> </ul>	C 67.00 — CONCENTRATION OF FUNDING BY COUNTERPARTY	<ul style="list-style-type: none"> <li>Top ten largest wholesale and retail funding by counterparties (where those counterparties funding exceeds 1% of total liabilities).</li> <li>Includes location, product type, currency, amount received, weighted average and residual maturity.</li> </ul>
FSA052 — Pricing Data	<ul style="list-style-type: none"> <li>Average transaction volume of, and prices which a firm pays for, certain of its wholesale liabilities.</li> </ul>	C 69.00 — PRICES FOR VARIOUS LENGTHS OF FUNDING	<ul style="list-style-type: none"> <li>Average transaction volume and prices paid by institutions for funding with different maturities ranging from overnight to ten years.</li> </ul>
FSA053 — Retail, SME and Large Enterprises Type B Funding	<ul style="list-style-type: none"> <li>Retail accounts and non credit sensitive corporate accounts by product type.</li> <li>Balances covered by FSCS.</li> </ul>	C 68.00 — CONCENTRATION OF FUNDING BY PRODUCT TYPE	<ul style="list-style-type: none"> <li>Concentration of funding by product type, broken down into different funding types relating to retail and wholesale funding (where product type total exceeds 1% of total liabilities).</li> <li>Balances covered by FSCS.</li> </ul>
FSA054 — Currency Analysis	<ul style="list-style-type: none"> <li>Currency mismatches.</li> <li>Splits a firm's balance sheet by currency in percentage terms.</li> </ul>	No equivalent	n.a.
New	n.a.	C 70.00 — ROLLOVER OF FUNDING	<ul style="list-style-type: none"> <li>Volume of funds maturing and new funding obtained, ie 'rollover of funding', on a daily basis over a monthly time horizon.</li> </ul>



# Appendices

- 
- 1A PRA Rulebook — CRR Firms: Individual Liquidity Adequacy Assessment Instrument 2015
- 
- 1B PRA Rulebook — CRR Firms: Liquidity Coverage Requirement — UK-Designated Investment Firms Instrument 2015
- 
- 1C PRA Handbook — Liquidity Standards Consequential Instrument 2015
- 
- 2 Supervisory Statement — The PRA's approach to supervising liquidity and funding risks (SS24/15)  
(see SS24/15 landing page: [www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss2415.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss2415.aspx))

**PRA RULEBOOK: CRR FIRMS: INTERNAL LIQUIDITY ADEQUACY ASSESSMENT  
INSTRUMENT 2015**

**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) 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 137G (the PRA’s general rules); and
  - (2) section 137T (general supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

**Pre-conditions to making**

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

**PRA Rulebook: CRR Firms: Internal Liquidity Adequacy Assessment Instrument 2015**

- D. The PRA makes the rules in the Annex to this instrument.

**Commencement**

- E. This instrument comes into force on 1 October 2015.

**Citation**

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Internal Liquidity Adequacy Assessment Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**

4 June 2015

## Annex

In this Annex, the text is all new and is not underlined.

### Part

# **INTERNAL LIQUIDITY ADEQUACY ASSESSMENT**

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## Chapter content

1. APPLICATION AND DEFINITIONS
2. OVERALL LIQUIDITY ADEQUACY RULE
3. OVERALL STRATEGIES, PROCESSES AND SYSTEMS
4. LIQUIDITY RISK APPETITE AND FUNDING RISK APPETITE
5. INTRA-DAY MANAGEMENT OF LIQUIDITY
6. TRANSFER PRICING SYSTEM
7. MANAGEMENT OF COLLATERAL
8. MANAGING LIQUIDITY ACROSS LEGAL ENTITIES, BUSINESS LINES, COUNTRIES AND CURRENCIES
9. FUNDING DIVERSIFICATION AND MARKET ACCESS
10. MANAGEMENT OF ASSET ENCUMBRANCE
11. STRESS TESTING
12. LIQUIDITY CONTINGENCY PLAN
13. INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS
14. APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS
15. INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO
16. TRANSITIONAL PROVISION

## Links

## 1 APPLICATION AND DEFINITIONS

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1.1 This Part applies to a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

*consolidation group*

means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 19(1), 19(3), 23 and 24(1) of the *CRR*.

*Delegated Regulation*

means Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

*funding risk*

means the risk that a *firm* does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost.

*Internal Liquidity Adequacy Assessment Process (ILAAP)*

means the process for the identification, measurement, management and monitoring of liquidity implemented by the *firm* in accordance with 3 – 13.

*liquidity contingency plan*

a plan for dealing with liquidity crises as required by 12.1.

*liquidity coverage ratio*

means the ratio calculated in accordance with Article 4(1) of the *Delegated Regulation*.

*liquidity risk*

means the risk that a *firm*, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due.

*overall liquidity adequacy rule*

means the rule in 2.1.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 OVERALL LIQUIDITY ADEQUACY RULE

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2.1 A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

- 2.2 For the purposes of the *overall liquidity adequacy rule*:
- (1) a *firm* also must ensure that:
    - (a) its liquidity resources contain an adequate buffer of high quality, unencumbered assets; and
    - (b) it maintains a prudent funding profile; and
  - (2) a *firm* may not include liquidity resources that may be made available through emergency liquidity assistance from a central bank.

### 3 OVERALL STRATEGIES, PROCESSES AND SYSTEMS

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- 3.1 As part of the *overall liquidity adequacy rule*, a *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* and *funding risk* over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers and an appropriate funding profile. These strategies, policies, processes and systems must be tailored to business lines, currencies, *branches* and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

**[Note: Art. 86(1) of the CRD]**

- 3.2 The strategies, policies, processes and systems referred to in 3.1 must be proportionate to the complexity, risk profile and scope of operation of the *firm*, and the *liquidity risk* appetite and *funding risk* appetite set by the *firm's management body* in accordance with 4, and must reflect the *firm's* importance in each country in which it carries on business.

**[Note: Art. 86(2) (part) of the CRD]**

- 3.3 A *firm* must, taking into account the nature, scale and complexity of its activities, have *liquidity risk* profiles and *funding risk* profiles that are consistent with and not in excess of those necessary for a well-functioning and robust system.

**[Note: Art. 86(3) of the CRD]**

- 3.4 A *firm* must put in place risk management policies to define its approach to asset encumbrance, as well as procedures and controls that ensure that the risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed.

### 4 LIQUIDITY RISK APPETITE AND FUNDING RISK APPETITE

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- 4.1 A *firm* must ensure that:
- (1) its *management body* establishes the *firm's liquidity risk* appetite and *funding risk* appetite and that this is appropriately documented;
  - (2) its *liquidity risk* appetite and *funding risk* appetite are appropriate for its business strategy and reflect its financial condition and funding capacity; and

- (3) its *liquidity risk* appetite and *funding risk* appetite are communicated to all relevant business lines.

**[Note: Art. 86(2) (part) of the CRD]**

## **5 INTRA-DAY MANAGEMENT OF LIQUIDITY**

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- 5.1 A *firm* must actively manage its intra-day liquidity positions and any related risks so that it is able to meet its payment and settlement obligations on a timely basis.
- 5.2 For the purposes of 5.1, a *firm* must ensure that its intra-day liquidity management arrangements enable it:
- (1) to meet its payment and settlement obligations on a timely basis under both normal financial conditions and under the stresses required by 11.3;
  - (2) to identify and prioritise the most time-critical payment and settlement obligations; and
  - (3) in relation to the markets in which it is active and the currencies in which it has significant positions, to measure, monitor and deal with intra-day *liquidity risk*. A *firm* must in particular be able to:
    - (a) measure expected daily gross liquidity inflows and outflows, anticipate the intra-day timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day; and
    - (b) manage the timing of its liquidity outflows such that priority is given to the *firm's* most time-critical payment obligations.

## **6 TRANSFER PRICING SYSTEM**

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- 6.1 A *firm* must implement an adequate transfer pricing system to ensure that it accurately quantifies liquidity and funding costs, benefits and risk in relation to all significant business activities.

## **7 MANAGEMENT OF COLLATERAL**

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- 7.1 A *firm* must actively manage collateral positions.
- 7.2 A *firm* must distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. A *firm* must also take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and must monitor how assets can be mobilised in a timely manner.

**[Note: Art. 86(5) of the CRD]**



## 8 MANAGING LIQUIDITY ACROSS LEGAL ENTITIES, BUSINESS LINES, COUNTRIES AND CURRENCIES

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8.1 A *firm* must actively manage its *liquidity risk* exposures and related funding needs and take into account:

- (1) existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets amongst entities, both within and outside the *EEA*; and

**[Note: Art. 86(6) of the *CRD*]**

- (2) any other constraints on the transferability of liquidity and unencumbered assets across business lines, countries and currencies.

## 9 FUNDING DIVERSIFICATION AND MARKET ACCESS

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9.1 A *firm* must ensure that it has access to funding which is adequately diversified, both as to source and tenor.

9.2 A *firm* must develop methodologies for the identification, measurement, management and monitoring of funding positions. Those methodologies must include the current and projected material cash-flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk.

**[Note: Art. 86(4) of the *CRD*]**

## 10 MANAGEMENT OF ASSET ENCUMBRANCE

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10.1 A *firm* must actively manage its asset encumbrance position.

10.2 For the purpose of 10.1 a *firm* must ensure that:

- (1) its risk management policies take into account:
  - (a) the *firm's* business model;
  - (b) the countries in which it operates;
  - (c) the specificities of the funding markets; and
  - (d) the macroeconomic situation; and
- (2) its *management body* receives timely information on:
  - (a) the current and expected level and types of asset encumbrance and related sources of encumbrance, such as secured funding or other transactions;
  - (b) the amount, expected level and credit quality of unencumbered assets that are capable of being encumbered, specifying the volume of assets available for encumbrance; and
  - (c) the expected amount, level and types of additional encumbrance that may result from stress scenarios.

- 10.3 For the purpose of this Chapter a *firm* must treat an asset as encumbered if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction.

## 11 STRESS TESTING

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- 11.1 A *firm* must consider different *liquidity risk* mitigation tools, including a system of limits and liquidity buffers in order to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. It must review those arrangements regularly.

**[Note: Art. 86(7) of the CRD]**

- 11.2 A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities* or other special purpose entities, as referred to in the *CRR* in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

**[Note: Art. 86(8) of the CRD]**

- 11.3 A *firm* must:
- (1) conduct on a regular basis appropriate stress tests so as to:
    - (a) identify sources of potential liquidity strain;
    - (b) ensure that current liquidity exposures continue to conform to the *liquidity risk* and *funding risk* appetite established by that *firm's management body*, and
    - (c) identify the effects on that *firm's* assumptions about pricing; and
  - (2) analyse on a regular basis the separate and combined impact of possible future liquidity stresses on its:
    - (a) cash flows;
    - (b) liquidity position;
    - (c) profitability; and
    - (d) solvency.
- 11.4 A *firm* must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time periods and varying degrees of stressed conditions must be considered.

**[Note: Art. 86(9) of the CRD]**

- 11.5 In carrying out the liquidity stress tests required by 11.3, a *firm* must make appropriate assumptions around the major sources of risk, including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:
- (1) retail *funding risk*;

- (2) wholesale secured and unsecured *funding risk*;
  - (3) risks arising from the correlation between funding markets and lack of diversification between funding types;
  - (4) off-balance sheet *funding risk*;
  - (5) risks arising from the *firm's* funding tenors;
  - (6) risks associated with a deterioration of a *firm's* credit rating;
  - (7) cross currency *funding risk*;
  - (8) risk that liquidity resources cannot be transferred across entities, sectors and countries;
  - (9) *funding risks* resulting from estimates of future balance sheet growth;
  - (10) franchise risk;
  - (11) marketable assets risk;
  - (12) non-marketable assets risk;
  - (13) internalisation risk; and
  - (14) intra-day risk.
- 11.6 A *firm* must ensure that its *management body* reviews regularly the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant to the *firm*.
- 11.7 A *firm* must ensure that the results of its stress tests are:
- (1) reviewed by its *senior management*;
  - (2) reported to that *firm's management body*, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action;
  - (3) reflected in the processes, strategies and systems established in accordance with 3.1;
  - (4) used to develop effective *liquidity contingency plans*;
  - (5) integrated into that *firm's* business planning process and day-to-day risk management; and
  - (6) taken into account when setting internal limits for the management of that *firm's liquidity risk* exposure.
- 11.8 A *firm* must report the results of its liquidity stress tests to the *PRA* in a timely manner.

## 12 LIQUIDITY CONTINGENCY PLAN

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- 12.1 A *firm* must adjust its strategies, internal policies and limits on *liquidity risk* and *funding risk* and develop an effective *liquidity contingency plan*, taking into account the outcome of the alternative scenarios referred to in 11.2.

**[Note: Art. 86(10) of the CRD]**

- 12.2 The *liquidity contingency plan* must include strategies to address the contingent encumbrance resulting from relevant stress events including downgrades in the firm's credit rating, devaluation of pledged assets and increases in margin requirements.
- 12.3 The *liquidity contingency plan* must also set out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to *branches* established in another *EEA State*. Those plans must be tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in 11.2, and be reported to and approved by the *firm's senior management*, so that internal policies and processes can be adjusted accordingly.

**[Note: Art. 86(11) (part) of the CRD]**

- 12.4 A *firm* must take the necessary operational steps in advance to ensure that *liquidity contingency plans* can be implemented immediately, including holding collateral immediately available for central bank funding. This includes holding collateral where necessary in the currency of another *EEA State* or currency of a *third country* to which the *firm* has exposures, and where operationally necessary within the territory of an *EEA State* or *third country* to whose currency it is exposed.

**[Note: Art. 86(11) (part) of the CRD]****13 INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS**

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- 13.1 A *firm* must ensure that:
- (1) it regularly, but at least annually, reviews its *ILAAP*;
  - (2) it regularly carries out an internal assessment of the adequacy of its liquidity and funding in accordance with its *ILAAP*;
  - (3) the assessment in (2) is proportionate to the nature, scale and complexity of its activities and includes an assessment of:
    - (a) the adequacy of its liquidity and funding resources to cover the risks identified in accordance with this Part;
    - (b) the methodologies and assumptions applied for risk measurement and liquidity management;
    - (c) the results of the stress tests required by 11.3; and
    - (d) the *firm's* compliance with this Part;
  - (4) its *ILAAP* identifies those of the measures set out in its *liquidity contingency plans* that it would implement.
- 13.2 A *firm* must make a written record of its *ILAAP* and the assessments required under this Part and maintain such record for at least three years.
- 13.3 A *firm* must ensure that its *management body* approves the *firm's ILAAP*.

## 14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS

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14.1 This Part applies to a *firm* on an individual basis whether or not it also applies to the *firm* on a *consolidated basis*.

**[Note: Art 109(1) of the CRD]**

14.2 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the arrangements, processes and mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *consolidated basis*.

14.3 Compliance with 14.2 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

**[Note: Art 109(2) (part) of the CRD]**

14.4 A *firm* which is an *EEA parent institution* must comply with this Part on the basis of its *consolidated situation*.

14.6 A *UK bank* or *building society* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if the *PRA* is responsible for supervision of the *UK bank* or *building society* on a *consolidated basis* under Article 111 of the *CRD*.

14.7 A *UK designated investment firm* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if:

- (1) there is no *subsidiary* of the holding company which is a *credit institution* to which 14.6 applies; and
- (2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.

14.8 If this Part applies to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Articles 18(1), 19(1), 19(3), 23 and 24 (1) of the *CRR*.

## 15 INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO

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15.1 The applicable *liquidity coverage ratio* for the purpose of Article 38(2) *Delegated Regulation* shall be:

- (1) 80% as from 1 October 2015;
- (2) 90% as from 1 January 2017; and
- (3) 100% as from 1 January 2018.

**16 TRANSITIONAL PROVISION**

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16.1 In 14.4 – 14.7 any reference to *EEA* is to be read as a reference to *EU*.



**PRA RULEBOOK: CRR FIRMS: LIQUIDITY COVERAGE REQUIREMENT – UK DESIGNATED INVESTMENT FIRMS INSTRUMENT 2015**

**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”) and the European Communities Act 1972 (“the EC Act”):
- (1) section 137G of the Act (the PRA’s general rules);
  - (2) section 137T of the Act (general supplementary powers); and
  - (3) paragraph 1A of Schedule 2 (provisions as to subordinate legislation) of the EC Act.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

**Pre-conditions to making**

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

**PRA Rulebook: CRR Firms: Liquidity Coverage Requirement – UK Designated Investment Firms Instrument 2015**

- D. The PRA makes the rules in the Annex to this instrument.

**Commencement**

- E. This instrument comes into force on 1 October 2015.

**Citation**

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Liquidity Coverage Requirement – UK Designated Investment Firms Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**

4 June 2015

**Annex**

In this Annex, the text is all new and is not underlined.

**Part**

# **LIQUIDITY COVERAGE REQUIREMENT – UK DESIGNATED INVESTMENT FIRMS**

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**Chapter content**

- 1. APPLICATION AND DEFINITIONS**
- 2. LIQUIDITY COVERAGE REQUIREMENT**
- 3. COMPLIANCE WITH LIQUIDITY REPORTING**
- 4. APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS**
- 5. TRANSITIONAL PROVISIONS**

**Links**

## 1 APPLICATION AND DEFINITIONS

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1.1 This Part applies to a *UK designated investment firm*.

1.2 In this Part, the following definitions shall apply:

### *COREP Regulation*

means the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and the Council, as amended from time to time.

### *Delegated Regulation*

means Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, as amended from time to time.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 LIQUIDITY COVERAGE REQUIREMENT

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2.1 (1) For the purpose of complying with Article 412 (1) of the *CRR*, a *firm* must comply with the obligations set out in the *Delegated Regulation* as they apply to a *credit institution* supervised under the *CRD*, subject to the modifications in (2).

(2) For the purposes of (1):

- (a) the provisions in Article 2(3) of the *Delegated Regulation* do not apply where Article 12 of the *CRR* applies;
- (b) the provisions in Article 2(3)(d) and Article 38 of the *Delegated Regulation* do not apply; and
- (c) any reference to *competent authority* means a reference to the *PRA*.

## 3 COMPLIANCE WITH LIQUIDITY REPORTING

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3.1 In accordance with Article 6(4) and Article 11(3) of the *CRR*, a *firm* is exempt from complying with the obligations laid down in Title II and Title III of Part Six of the *CRR* on an individual basis and on a *consolidated basis*.

3.2 (1) A *firm* must comply with the reporting requirements laid down in Chapter 1 and Chapter 7 to Chapter 9 of the *COREP Regulation* with the exception of Article 15 as they apply to a *credit institution* supervised under the *CRD*.

(2) For the purpose of (1), a reference to Article 415 of the *CRR* in the *COREP Regulation* is construed as a reference to the obligations set out in (1).

#### 4 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS

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- 4.1 This Part applies to a *firm* on an individual basis whether or not it also applies to the *firm* on a *consolidated basis*.
- 4.2 A *firm* which is an *EEA parent institution* must comply with this Part on the basis of its *consolidated situation*.
- 4.3 A *firm* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if:
- (1) there is no *subsidiary* of the holding company which is a *credit institution* that is supervised under the *CRD*; and
  - (2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.
- 4.4 If this Part applies to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Articles 18(1), 19(1), 19(3) 23 and 24 (1) of the *CRR*.

#### 5 TRANSITIONAL PROVISIONS

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- 5.1 In 4.2 and 4.3 any reference to *EEA* is to be read as a reference to *EU*.

## LIQUIDITY STANDARDS CONSEQUENTIALS INSTRUMENT 2015

### Powers exercised

- A. The Prudential Regulation Authority (“PRA”) 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 137G (The PRA’s general rules); and
  - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

### Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

### Commencement

- D. Annex A to Annex D and Annex F to this instrument come into force on 1 October 2015.
- E. Annex E to this instrument shall come into force on the date specified by a subsequent PRA Board Instrument.

### Amendments to the Handbook

- F. The modules of the PRA Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex C
Supervision manual (SUP)	Annex D
Supervision manual (SUP)	Annex E
Amendments to the Fundamental Rules	Annex F

### Amendments to the Rulebook

- G. The PRA Rulebook: Fundamental Rules is amended in accordance with Annex F to this instrument.

### Citation

- H. This instrument may be cited as the Liquidity Standards Consequential Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**  
**4 June 2015**

## Annex A

## Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text. Insert the following new definitions and amendments in the appropriate alphabetical order.

<i>ILAS BIPRU firm</i>	<p>(A) In the PRA Handbook:</p> <p>a firm falling into BIPRU 12.1.1R, but excluding a firm that is:</p> <p>(a) <del>an exempt full scope BIPRU investment firm; or a UK bank; or</del></p> <p>(b) <del>a BIPRU limited licence firm; or a building society; or</del></p> <p>(c) <del>a BIPRU limited activity firm; or a UK designated investment firm; or</del></p> <p>(d) <del>an exempt BIPRU commodities firm.</del> <u>an overseas firm that:</u></p> <p>(a) <u>is a bank;</u></p> <p>(b) <u>is not an EEA firm; and;</u></p> <p>(c) <u>has its head office outside the EEA; or</u></p> <p>(e) <u>an EEA bank that has its registered office (or if it has no registered office, its head office) outside the EU.</u></p>
...	
<i>intra-group liquidity modification</i>	<p>a modification to the <i>overall liquidity adequacy rule</i> of the kind described in BIPRU 12.8.7G <u>as in effect on 30 September 2015 granted to a firm and in effect on that date.</u></p>
...	
<i>overall liquidity adequacy rule</i>	<p>BIPRU 12.2.1R <u>as in effect on 30 September 2015.</u></p>
...	
<i>whole-firm liquidity modification</i>	<p>a modification to the <i>overall liquidity adequacy rule</i> of the kind described in BIPRU 12.8.22G <u>as in effect on 30 September 2015 granted to a firm and in effect on that date.</u></p>

## Annex B

### Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

SYSC 12.1.13R is deleted in its entirety. This text is not shown.

#### 12.1 Application

...

#### **CRR firms and non-CRR firms that are parent financial holding companies in a Member State**

12.1.13A R If this rule applies under SYSC 12.1.14R to a firm, the firm must:

- (1) comply with SYSC 12.1.8R (2) in relation to any UK consolidation group or non-EEA sub-group of which it is a member, as well as in relation to its group; and
- (2) ensure that the risk management processes and internal control mechanisms at the level of any consolidation group or non-EEA sub-group of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:
  - (a) SYSC 4.1.1 R and SYSC 4.1.2 R;
  - (b) SYSC 4.1.7 R;
  - (bA) SYSC 4.3A;
  - (c) SYSC 5.1.7 R;
  - (d) SYSC 7;
  - (dA) the Remuneration Code;
  - (e) [deleted];
  - (f) [deleted];
  - (g) [deleted];
  - (h) [deleted];

[Note: article 109(2) of CRD]

- (3) ensure that compliance with the obligations in (2) enables the consolidation group or the non-EEA sub-group to have

arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[**Note:** article 109(2) of *CRD*]

12.1.13AB R When applying ~~SYSC 12.1.13R~~ SYSC 12.1.13AR, *CRR firms* must read references to:

...



## **Annex C**

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

The entirety of part 2 of the Annex to Prudential sourcebook for Banks, Building Societies and Investment Firms (Liquidity Standards) Amendments Instrument 2013 is deleted.

BIPRU 12, BIPRU Schedule 3 and BIPRU Schedule 6 are deleted in their entirety.

## Annex D

### Amendments to the Supervisory manual (SUP)

The entirety of part 5 of the Annex of the Capital Requirements Regulation (Reporting) Amendment Instrument 2013 is deleted.

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

#### 16.12 Integrated Regulatory Reporting

...

16.12.4A G ~~RAG 1 includes an incoming EEA firm exercising a BCD right through a UK branch.~~[deleted]

#### ~~Group liquidity reporting~~

16.12.4B G ~~Reporting at group level for liquidity purposes by firms falling within BIPRU 12 (Liquidity) is by reference to defined liquidity groups. Guidance about the different types of defined liquidity groups and related material is set out in SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12).~~[deleted]

#### Regulated Activity Group 1

SUP 16.12.5R is deleted in its entirety. This text is not shown.

16.12.5A R The applicable data items and forms or reports referred to in SUP 16.12.4R are set out according to firm type in the table below:

Description of data item	Prudential category of firm, applicable data items and reporting format (Note 1)						
	<u>UK bank</u>	<u>Building society</u>	<u>Non-EEA bank</u>	<u>EEA bank that has permission to accept deposits, other than one with permission for cross border services only and that has its registered office (or, if it has no registered office, its head office) outside the</u>	<u>[deleted]</u>	<u>Credit union</u>	<u>Dormant account fund operator (note 15)</u>

				<i>EU</i>			
<i>Annual report and accounts</i>	No standard format		No standard format, but in <u>English</u>				No standard format
<i>Annual report and accounts of the mixed-activity holding company (note 9)</i>	No standard format						
Solvency statement (note 10)	No standard format						
Balance sheet	FSA001 (note 2)	FSA001 (note 2)				CQ; CY	
Income statement	FSA002 (note 2)	FSA002 (note 2)	FSA002			CQ; CY	
Capital adequacy						CQ; CY	
	[deleted]	[deleted]					
Market risk	FSA005 (notes 2, 4)	FSA005 (notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)						
Large exposures						CQ; CY	
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (note 12)	FSA018 (note 12)					
Liquidity (other than stock)		FSA011				CQ; CY	
Forecast data	FSA014 (note 11)	FSA014 (note 11)					
Solo consolidation data	FSA016 (note 7)	FSA016 (note 7)					
Interest rate gap report	FSA017	FSA017					
Sectoral	FSA015	FSA015					

<u>information, including arrears and impairment</u>	(Note 2)	(Note 2)					
<u>IRB portfolio risk</u>	FSA045 (note 13)	FSA045 (note 13)					
<u>Daily Flows</u>	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)			
<u>Enhanced Mismatch Report</u>	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)			
<u>Liquidity Buffer Qualifying Securities</u>	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)					
<u>Funding Concentration</u>	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)					
<u>Pricing data</u>	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 22 and 24)					
<u>Retail and corporate funding</u>	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 21 and 22)					

<u>Note 1</u>	<u>When submitting the completed data item required, a firm must use the format of the data item set out in SUP 16 Annex 24R, except for credit union reports that are in SUP 16 Annex 14R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25G (or Annex 15G for credit unions).</u>
<u>Note 2</u>	<u>Firms that are members of a UK consolidation group are also required to submit this data item on a UK consolidation group basis. Firms' attention is drawn to SUP 16.3.25G regarding a single submission for all firms in the group.</u>
<u>Note 3</u>	[deleted]
<u>Note 4</u>	<u>For PRA-authorised persons lines 62 to 64 only are applicable. These lines apply to a firm that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form PRA-authorised persons may refer to SUP 16.12.25A R.</u>
<u>Note 5</u>	<u>Only applicable to firms with a VaR model permission.</u>
<u>Note 6</u>	[deleted]
<u>Note 7</u>	<u>Only applicable to a firm that has a solo consolidation waiver.</u>
<u>Note 8</u>	[deleted]
<u>Note 9</u>	[deleted]
<u>Note 10</u>	[deleted]

Note 11	<u>Members of a UK consolidation group should only submit this data item at the UK consolidation group level.</u>
Note 12	<u>Only applicable to a firm that has both a core UK group and a non-core large exposures group.</u>
Note 13	<u>Only applicable to firms that have an IRB permission.</u>
Note 14	[deleted]
Note 15	<u>Only applies to a dormant account fund operator that does not fall into any of the other prudential categories in this table.</u>
Note 16	<p><u>A firm must complete this item separately on each of the following bases that are applicable.</u></p> <p><u>(1) It must complete it on a solo basis (including on the basis of the firm's UK branch). Therefore even if it has a solo consolidation waiver it must complete the item on an unconsolidated basis by reference to the firm alone.</u></p> <p><u>(2) If it is a group liquidity reporting firm in a DLG by default and is a UK lead regulated firm, it must complete the item on the basis of that group.</u></p> <p><u>(3) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group and (1) does not apply.</u></p> <p><u>(4) If it is a group liquidity reporting firm in a non-UK DLG by modification, it must complete the item on the basis of that group.</u></p>
Note 17	<p><u>A firm must complete this item separately on each of the following bases that are applicable.</u></p> <p><u>(1) It must complete it on a solo basis (including on the basis of the firm's UK branch) unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has a solo consolidation waiver it must complete the item on an unconsolidated basis by reference to the firm alone.</u></p> <p><u>(2) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group.</u></p>
Note 18	<p><u>(1) If the firm has a whole-firm liquidity modification, it must complete this item on the basis of the whole firm (or at any other reporting level the whole-firm liquidity modification may have required) and not just its UK branch.</u></p> <p><u>(2) If the firm does not have a whole-firm liquidity modification there is no obligation to report this item.</u></p>
Note 19	[deleted]
Note 20	<p><u>(1) This item must be reported in the reporting currency.</u></p> <p><u>(2) If any data element is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.</u></p> <p><u>(3) In addition, all material currencies (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:</u></p> <p><u>(a) the reporting frequency is (whether under a rule or under a waiver) quarterly or less than quarterly; or</u></p> <p><u>(b) the only material currency is the reporting currency;</u></p> <p><u>(3) does not apply.</u></p> <p><u>(4) If there are more than three material currencies for this data item, (3) only applies to the three largest in amount. A firm must identify the largest in amount in accordance with the following procedure.</u></p> <p><u>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of material currency.</u></p> <p><u>(b) Take the three largest figures from the resulting list of amounts.</u></p> <p><u>(5) The date as at which the calculations for the purposes of the definition of material currency are carried out is the last day of the reporting period in question.</u></p> <p><u>(6) The reporting currency for this data item is whichever of the following currencies the firm chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).</u></p>
Note 21	<u>Note 20 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that material currencies must not be recorded separately.</u>
Note 22	<u>Any changes to reporting requirements caused by a firm receiving an intra-group liquidity modification or a whole-firm liquidity modification (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the data item in question if the firm receives that intra-group liquidity modification, whole-firm liquidity modification or variation part of the way through such a period. If the change is that the firm does not have to report a particular data item or does not have to report it at a particular reporting level, the firm must nevertheless report that item or at that reporting level for any reporting period that has already begun. This paragraph is subject to anything that the intra-group liquidity modification or a whole-firm liquidity modification says</u>

	to the contrary.
Note 23	Only applicable to <i>firms</i> that hold <i>securitisation positions</i> in the <i>trading book</i> and/ or are the <i>originator</i> or <i>sponsor</i> of <i>securitisations</i> held in the <i>trading book</i> .
Note 24	This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

...

16.12.11B R The applicable *data items* referred to in SUP 16.12.4R for UK *designated investment firms* are set out below:

...	
Note 10	A <i>firm</i> must complete this item separately on each of the following bases (if applicable). ... (3) If it is a <i>group liquidity reporting firm</i> in a UK DLG by <i>modification</i> , it must complete the item on the basis of that group and (1) does not apply. ...
...	

...

#### Regulated Activity Group 4

16.12.15B R The applicable *data items* referred to in SUP 16.12.4R for UK *designated investment firms* are set out below:

...	
Note 7	A <i>firm</i> must complete this item separately on each of the following bases (if applicable). ... (3) If it is a <i>group liquidity reporting firm</i> in a UK DLG by <i>modification</i> , it must complete the item on the basis of that group and (1) does not apply. ...
...	

...

#### Regulated Activity Group 7

16.12.22C R The applicable *data items* referred to in SUP 16.12.4R for UK *designated investment firms* are set out in the table below:

...	
Note 6	A <i>firm</i> must complete this item separately on each of the following bases (if applicable). ... (3) If it is a <i>group liquidity reporting firm</i> in a UK DLG by <i>modification</i> , it must complete the item on the basis of that group and (1) does not apply. ...

...	
-----	--

...

**Regulated Activity Group 8**

16.12.25C R The applicable *data items* referred to in SUP 16.12.4R are set out in the table below:

...	
Note 9	<p>A <i>firm</i> must complete this item separately on each of the following bases (if applicable).</p> <p>...</p> <p>(3) If it is a <i>group liquidity reporting firm</i> in a UK DLG by <i>modification</i>, it must complete the item on the basis of that group and (1) does not apply.</p> <p>...</p>
...	

...

**16 Annex 26 Guidance on designated liquidity groups in SUP 16.12**

The entirety of SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12) is deleted. The deleted text is not shown.

## Annex E

## Amendments to the Supervisory manual (SUP)

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

## 16.12 Integrated Regulatory Reporting

...

## Regulated Activity Group 1

16.12.5A R The applicable *data items* and forms or reports referred to in SUP 16.12.4R are set out according to *firm* type in the table below:

Description of <i>data item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)						
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits, other than one with permission for cross border services only and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	[deleted]	<i>Credit union</i>	<i>Dormant account fund operator</i> (note 15)
<i>Annual report and accounts</i>	No standard format		No standard format, but in English				No standard format
<i>Annual report and accounts of the mixed-activity holding company</i> (note 9)	No standard format						
Solvency statement (note 10)	No standard format						
Balance sheet	FSA001 (note 2)	FSA001 (note 2)				CQ; CY	



Income statement	FSA002 (note 2)	FSA002 (note 2)	FSA002			CQ; CY	
Capital adequacy						CQ; CY	
	[deleted]	[deleted]					
Market risk	FSA005 (notes 2, 4)	FSA005 (notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)						
Large exposures						CQ; CY	
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (note 12)	FSA018 (note 12)					
Liquidity (other than stock)		FSA011				CQ; CY	
Forecast data	FSA014 (note 11)	FSA014 (note 11)					
Solo consolidation data	FSA016 (note 7)	FSA016 (note 7)					
Interest rate gap report	FSA017	FSA017					
Sectoral information, including arrears and impairment	FSA015 (Note 2)	FSA015 (Note 2)					
IRB portfolio risk	FSA045 (note 13)	FSA045 (note 13)					
Daily Flows	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)			
Enhanced Mismatch Report	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)			
Liquidity Buffer Qualifying	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)					

Securities							
Funding Concentration	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)					
Pricing data	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 22 and 24)					
Retail and corporate funding	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 21 and 22)					

...	
Note 17	<i>A firm must complete this item separately on each of the following bases that are applicable:</i> (1) It must complete it on a solo basis (including on the basis of the <i>firm's UK branch</i> ) unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i> . Therefore even if it has a <i>solo consolidation waiver</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. (2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i> , it must complete the item on the basis of that group. [deleted]
...	
Note 21	Note 20 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. [deleted]
...	
Note 24	This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]
...	

...

16.12.11B R The applicable *data items* referred to in SUP 16.12.4R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Daily flows	FSA047 (Notes 10, 13, <del>and 15 and 16</del> )
Enhanced Mismatch Report	FSA048 (Notes 10, 13, <del>and 15 and 16</del> )
Liquidity Buffer Qualifying Securities	FSA050 (Notes 11, 14, 15 and 16)
Funding Concentration	FSA051 (Notes 11, 14, 15 and 16)
Pricing data	FSA052 (Notes 11, 15, 16 and 17)
Retail and corporate funding	FSA053 (Notes 11, 14, 15 and 16)

Currency Analysis	FSA054 (Notes 11, 14, 15 and 16)
Systems and Controls Questionnaire	FSA055 (Notes 12 and 16)

...	
Note 11	<i>A firm must complete this item separately on each of the following bases that are applicable.</i> (1) <i>It must complete it on a solo basis unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone.</i> (2) <i>If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group.</i> [deleted]
Note 12	<i>If it is a non-ILAS BIPRU firm, it must complete it on a solo basis. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone.</i> [deleted]
...	
Note 14	<i>Note 13 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that material currencies must not be recorded separately.</i> [deleted]
Note 16	<i>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an ILAS BIPRU firm. An ILAS BIPRU firm does not need to complete FSA055. A non-ILAS BIPRU firm must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.</i> [deleted]
Note 17	<i>This data item must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.</i> [deleted]
...	

...

#### Regulated Activity Group 4

16.12.15B R The applicable *data items* referred to in SUP 16.12.4R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable data items (Note 1)
...	
Daily Flows	FSA047 (Notes 7,10, and 12 and 13)
Enhanced Mismatch Report	FSA048 (Notes 7,10, and 12 and 13)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 8, 11, 12 and 13)
Funding Concentration	FSA051 (Notes 8, 11, 12 and 13)
Pricing data	FSA052 (Notes 8, 12, 13 and 14)
Retail and corporate funding	FSA053 (Notes 8, 11, 12 and 13)
Currency Analysis	FSA054 (Notes 8, 11, 12 and 13)

Pricing data	FSA052 (Notes 8, 12, 13 and 14)
Systems and Control Questionnaire	FSA055 (Notes 9 and 13)

...	
Note 8	<p>A <i>firm</i> must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group. <del>[deleted]</del></p>
Note 9	<p>If it is a <i>non-ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. <del>[deleted]</del></p>
...	
Note 11	<p>Note 10 applies, except that paragraphs (3), (4), and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. <del>[deleted]</del></p>
...	
Note 13	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i>. An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non-ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. <del>[deleted]</del></p>
Note 14	<p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. <del>[deleted]</del></p>
...	

...

## Regulated Activity Group 7

16.12.22C R The applicable *data items* referred to in SUP 16.12.4R for *UK designated investment firms* are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
...	
Daily Flows	FSA047 (Notes 6, 9, and 11 and 12)
Enhanced Mismatch Report	FSA048 (Notes 6, 9, and 11 and 12)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 7, 10, 11 and 12)
Funding Concentration	FSA051 (Notes 7, 10, 11 and 12)
Pricing Data	FSA052 (Note 7, 10, 12 and 13)

Retail and corporate funding	FSA053 (Notes 7, 10, 11 and 12)
Currency Analysis	FSA054 (Notes 7, 10, 11 and 12)
Systems and Controls Questionnaire	FSA055 (Notes 8 and 12)

...	
Note 7	<p>A <i>firm</i> must complete this item separately on each of the following bases that are applicable:</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group. [deleted]</p>
Note 8	<p>If it is a <i>non-ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. [deleted]</p>
...	
Note 10	<p>Note 9 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. [deleted]</p>
...	
Note 12	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i>. An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non-ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. [deleted]</p>
Note 13	<p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]</p>
...	

...

## Regulated Activity Group 8

16.12.25C R The applicable *data items* referred to in SUP 16.12.4R are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
...	
Daily flows	FSA047 (Notes 9, 12, and 14 and 15)
Enhanced Mismatch Report	FSA048 (Notes 9, 12, 14 and 15)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 10, 13, 14 and 15)
Funding Concentration	FSA051 (Notes 10, 13, 14 and 15)

Pricing data	FSA052 (Notes 10, 14, 15 and 16)
Retail and corporate funding	FSA053 (Notes 10, 13, 14 and 15)
Currency Analysis	FSA054 (Notes 10, 13, 14 and 15)
Systems and Controls Questionnaire	FSA055(Notes 11 and 15)

...	
Note 10	<p>A firm must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a UK DLG by modification. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a UK DLG by modification, it must complete the item on the basis of that group. [deleted]</p>
Note 11	<p>If it is a <i>non-ILAS-BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. [deleted]</p>
...	
Note 13	<p>Note 24 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. [deleted]</p>
...	
Note 15	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an ILAS BIPRU firm. An ILAS BIPRU firm does not need to complete FSA055. A non-ILAS BIPRU firm must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. [deleted]</p>
Note 16	<p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]</p>
...	

...

## Annex F

### Amendments to the Fundamental Rules

In this Annex new text is underlined and deleted text is struck through.

#### 3 RESTRICTIONS

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3.1 The *Fundamental Rules* apply to every *firm*, except that:

- (1) ...
- (2) for an *incoming EEA firm* that is a *credit institution* without a *top-up permission*, Fundamental Rule 4 ~~applies only in relation to the liquidity of a branch established in the UK~~ does not apply; and
- (3) ...