



Jon Pain
Managing Director
Supervision

13 January 2010

Dear CEO,

FSA requirements on your firm's liquidity risk management

I am writing to you to set out how we will monitor compliance with our new liquidity regime and to outline how you can confirm, by 12 February 2010, that your firm complies with our new systems and control requirements.

The new liquidity regime came into effect on 1 December 2009. The rules require changes to firms' business models and will bring about substantial long-term benefits to the competitiveness of the UK financial services sector. They are designed to protect customers, counterparties and other participants in financial services markets from the potentially serious consequences of imprudent liquidity risk management practices.

Most elements of the regime, such as regulatory reporting and the quantitative Individual Liquidity Adequacy Standards (ILAS), are subject to transitional provisions that defer their switch-on until later in 2010, staggered by type of firm.

However, our updated systems and controls requirements, an extension of the previous requirements, came into force immediately for most in-scope firms.

Please confirm in writing by 12 February 2010 that:

1. the new systems and controls requirements have been successfully embedded within your firm and outline any remaining actions you need to take; and
2. you have appropriate plans in place to ensure accurate electronic reporting of liquidity data from your firm's switch-on date. We appreciate that for some firms the exact scope, frequency and switch-on date of the reporting requirements is dependent on the outcome of a modification or waiver application. However, we expect that even those firms will have started preparations for liquidity reporting.

Please respond via email to: liquidity.policy@fsa.gov.uk, and put 'For the attention of Chris Forster' and then your Firm Registration Number (FRN) in the subject box.

You should also direct any queries you have on the new systems and control requirements or any other aspects of the new liquidity policy to this email address.

Next steps

We will select a cross-section sample of firms and request information about the arrangements they have put in place to comply with our liquidity standards for banks, building societies and investment firms ([BIPRU 12.3 and 12.4](#)).

This will include:

- the firm's current and Board-approved liquidity risk management policy;
- Board minutes and papers setting out and agreeing the firm's liquidity risk appetite;

- terms of reference for all risk committees dealing with liquidity;
- copies of all relevant liquidity risk management reports and management information (MI);
- liquidity stress testing policy, including full descriptions of the methodology, all assumptions supporting and informing stress testing and examples of the reports and MI produced and used by management; and
- the current Board approved Contingency Funding Plan.

As you would expect we will follow up with firms which give us incomplete or inadequate documentation and this may involve an on-site visit. If these firms have not taken the appropriate action we will consider enforcement action.

After we review the systems and controls information provided, we will visit some further firms in the second quarter of 2010 to conduct in-depth, on-site reviews of how they have put in place the requirements in BIPRU 12.3 and 12.4. We intend to publish our findings, including good practice, in the third quarter of 2010.

Liquidity data

Later this year we will focus work on compliance with our liquidity data regulatory reporting requirements. The liquidity data we are planning to collect from firms will be the cornerstone of the new regime as it will enable us to monitor firms' compliance with our liquidity risk standards, their liquidity risk profiles and draw market-wide and peer-group comparisons. It will also allow us to run our own stress scenarios on the basis of the contractual data collected.

In this letter we have asked you to confirm you have appropriate plans in place to ensure accurate electronic reporting of liquidity data from your firm's switch on date.

In future we may ask you to provide:

- a description of the systems your firm will use to deliver accurate reporting;
- the audit and validation tests you will establish for the extraction and appropriateness of the data; and
- the latest project progress report showing how you can deliver the required functionality on time, including risks. This should be a true reflection of all systems and processes required to implement the liquidity data reporting regime across your firm.

We are preparing plans for further checking of the accuracy of the data firms will be submitting to us once the liquidity data reporting regime has switched on and will give you the details in due course. We are also running [workshops](#) shortly to help firms understand these requirements.

We look forward to hearing from you. If you have any queries on the new systems and control requirements or any other aspects of the new liquidity policy, please send them to liquidity.policy@fsa.gov.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jon Pain', written in a cursive style.

Jon Pain
Managing Director, Supervision