

December 2008

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This newsletter provides a summary of CP08/22. Please see the section 'Who should read this paper?' to see if CP08/22 is relevant to you.

Financial Services Authority

Strengthening liquidity standards

Why are we issuing the Consultation Paper?

This Consultation Paper (CP) sets out our views on the future of liquidity regulation within the UK. Our proposals implement recently agreed international standards for liquidity and incorporate feedback received to last December's Discussion Paper (DP) 07/7, *Review of the liquidity requirements for banks and building societies*.

Who should read the paper?

This consultation is relevant to all BIPRU firms and UK branches of certain EEA and non-EEA banks.

What is the background to this?

Our proposals take on board what we have learned from the financial markets difficulties over the last 18 months, as well as from our supervisory counterparts in other jurisdictions. In addition to the international standards, we propose to implement a new quantitative regime for certain firms to anchor the stability of their liquidity positions.

How is the paper set out?

- Chapters 1 and 2 summarise the key features of the new liquidity regime, its scope and the policy considerations that underpin it.
- Chapter 3 elaborates on the details of one of the main pillars of the regime – the new systems and controls requirements, which will apply to all BIPRU firms, including UK banks, building societies and investment firms, and UK branches of certain EEA and non-EEA banks.
- Chapter 4 explains the Individual Liquidity Adequacy Standards (ILAS) component of the regime, which will apply to UK banks, building societies and Full Scope BIPRU investment firms, excluding BIPRU Limited License and Limited Activity firms.
- Chapter 5 contains our proposals on quantitative standards for simpler firms that fall within the ILAS component of the regime.
- Chapter 6 discusses liquid assets.
- Chapter 7 expands on our approach to group-wide management of liquidity, including waivers and modifications.
- Chapter 8 contains a pre-consultation on our new liquidity reporting requirements.
- Chapter 9 discusses the cost benefit analysis (CBA).
- Chapter 10 contains the compatibility statement with our objectives and the principles of good regulation.

What happens next?

Responses to this CP are due by 4th March 2009. This will be followed by Feedback and Policy Statements in Q2 2009, with a view of implementing the new regime by October 2009. We are also pre-consulting on reporting requirements in this CP, with a four-week response period which ends on 6th January 2009. This will be followed by a separate CP on liquidity reporting, as well as Handbook consequentials and transitional arrangements, in the first quarter of 2009.

The Financial Services Authority invites comments on this Consultation Paper. Comments on questions 1-64 and 83-97 should reach us by 4th March 2009. Comments on questions 65-82 should reach us by 6th January 2009.

This consultation contains a large number of questions for respondents. We have therefore created an electronic response form. We would prefer respondents to use this electronic form when sending us their responses. Comments should be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/Pages/Library/Policy/CP/2008/cp08_22_response.shtml).

Alternatively, please send comments in writing to:

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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

How can I get the full paper?

You can download the full Consultation Paper from:

www.fsa.gov.uk/pages/Library/Policy/CP/2008/08_22.shtml

Or you can order hard copies of the paper:

Phone our helpline on 0845 608 2372, quoting reference CP08/22

Copies are available at £20 each. Please allow five working days for delivery.

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