

09 / 16

Financial Services Authority

Feedback – detailed analysis

October 2009



Contents

This paper provides the detailed analysis of feedback received to the three liquidity consultation papers (CPs). A high-level summary of the feedback can be found in Chapter 2 of Policy Statement (PS) 09/16.

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1 Detailed feedback – CP08/22 Strengthening liquidity standards

CP08/22 Chapter 1: Overview

Industry response

FSA response

Key policy considerations

Q1: To what extent should the reduction of 'moral hazard' be a key objective of liquidity regulation?

Respondents agreed that the reduction of moral hazard should be a key objective of liquidity regulation. Some respondents stated that it was important to clarify the role of the central bank, particularly in respect of when it would provide support in a liquidity crisis.

Some respondents commented that although the reduction of moral hazard should be a key concern, the overriding objective for any liquidity regime should be ensuring the soundness of the financial system.

We strongly believe that the reduction of moral hazard should be a key objective of our liquidity policy and we are, therefore, encouraged by respondents support.

Q2: Do you agree that central bank policies and frameworks and supervisors' views of liquidity risk are intrinsically linked?

Respondents agreed that there was a clear link between central bank policies and regulatory policies. Many responses emphasised that the liquidity of assets in times of stress is affected by their eligibility for central bank operations and this should to be recognised by regulators. More generally, respondents were keen to emphasise the need for strong coordination between the central banks and the regulators both nationally and internationally.

We agree that there are clear links between central bank policies and supervisory liquidity policies and have, therefore, designed our regime to take account of them. However, we also recognise the authorities' mutual objective of reducing moral hazard and therefore believe that there are areas where there should be no direct link (e.g. in relation to our definition of liquidity assets and central banks' definition of eligible collateral). This is because we must not imply that the central banks are seen as lenders of first resort.

Industry response

FSA Response

Q3: To what extent is the reputation of, and creditors' confidence in, a firm the key to that firm's liquidity position?

All responses said that confidence in a firm was necessary for a strong liquidity position. One respondent said that investment managers and stock brokers were not exposed to creditors' confidence to the same extent as financial firms that undertake maturity transformation. Therefore, creditor confidence did not play a key role in their affairs.

We agree that confidence in a firm is key to it maintaining a strong liquidity position. We believe that our reformulated liquidity regime will increase confidence in firms that are subject to it.

Q4: Do you agree that a buffer of liquid assets alone cannot protect against the consequences of liquidity stress?

Most respondents agreed.

We agree that a buffer of liquidity assets alone is insufficient to protect against a liquidity stress. Strong systems and controls (including stress testing, contingency funding plans (CFPs) and sound governance processes) are equally important.

Q5: Do you believe that legal entities are an important consideration for the purpose of liquidity regulation?

All respondents recognised the importance of legal entities in liquidity regulation. Some respondents commented on the differences between legal entities and branches and that differing conceptual approaches needed to be taken in this area, depending on whether it was a branch or subsidiary.

We agree that legal entities are an important consideration, particularly since cross-border group failures manifest themselves through them. We also note the differences between legal entities and branches and believe we have reflected this in the design of our final policy.

Q6: Do you agree that firms tend to underestimate the potential severity of liquidity stresses in their stress testing and CFPs?

Many respondents said that they had underestimated the severity of liquidity stresses in the past and that their stress testing was now carried out to a more rigorous standard.

In our assessment, a number of firms did not carry out sufficiently severe stress testing, which we have sought to address in our new liquidity regime.

Industry response**FSA response**

Q7: What role do you believe models have to play in liquidity regulation?

Respondents said that internal liquidity models were useful, subject to the usual caveats that apply to financial modelling more generally (e.g. hidden assumptions, over-reliance on historical data, etc). Some respondents said there was a role for supervisory bodies to assist with stress testing assumptions, given the additional data available to them and their wider experiences with firms' approaches.

We believe that internal models could play more of a role in the future, once firms have clearly demonstrated that they can manage their liquidity positions appropriately.

Q8: Do you agree that strong liquidity regulation, in the long run, enhances the international competitiveness of the UK financial services sector as a whole?

Respondents stated that good regulation would enhance the competitiveness of the UK financial services sector but that the burden placed on firms should be balanced with the benefit to society.

Many respondents said good liquidity regulation would benefit the UK economy more widely.

We believe that a strong liquidity regime will enhance the UK's international competitiveness. We also note that the calibration of our regime should appropriately take account of any costs and benefits. For further details see Chapter 13.

International developments

Q9: What is your opinion of the priorities for the international and European forward agendas on liquidity?

Respondents agreed that liquidity regulation should be addressed internationally. Some respondents said that there was a risk that international supervisors would design regulations appropriate for complex internationally active firms, and that these would also be applied to smaller, less complex firms for whom the regulations would be inappropriate.

We remain fully committed to the design of an effective international standard for liquidity.

We apply all our rules proportionately as appropriate.

CP08/22 Chapter 2: Design and scope of the new regime

Industry response

FSA response

High-level standards and more principles based regulation

Q10: What is your view on our principle of adequate liquidity resources? Do you agree that quality, nature and behaviour of the asset are as important to determine its liquidity value as its amount and face value?

Respondents were in agreement.

We noted the feedback.

Q11: What is your view on our principle of self sufficiency? Do you agree that it constitutes a prudent approach to liquidity risk management?

Respondents were divided about whether our proposed self-sufficiency principle should be applied. Those opposed raised the risks of trapping liquidity, while those in favour argued that had self sufficiency been in place before the crisis the severity of the crisis would have been substantially reduced. Many respondents were unclear as to how self sufficiency would be applied to branches.

We have retained self sufficiency as a core principle of our new regime; however, its application can be modified as part of our policy on group-wide management of liquidity. We have also clarified our approach to branches in this regard.

CP08/22 Chapter 3: Systems and controls requirements

Industry response

FSA response

The international context

*Q12: Do you agree with our intention to align closely our systems and controls requirements with international developments, specifically the BCBS **Principles for Sound Liquidity Risk Management and Supervision**?*

Most respondents supported our intention to closely align our qualitative requirements with international developments, specifically the BCBS *Principles for Sound Liquidity Risk Management*. They noted that the delivery of internationally consistent liquidity risk management standards (coming into effect simultaneously) would facilitate and simplify, at a reduced cost, the implementation of group-wide liquidity risk management frameworks and group supervision of liquidity risk standards.

Some respondents questioned whether the proposed rules reflected the Basel Principles. However, one respondent supported the intention to align the proposed rules with the Basel Principles and suggested that we refrain from implementing standards that would result in uniform metrics, methodologies and strategies being adopted to avoid concentration risk.

The feedback to this question reinforces our belief that a core objective should be to align our policy with the Basel Principles. We have provided further guidance where we consider it necessary for a robust and comprehensive set of provisions and/or where we felt firms would benefit from greater clarity.

To ensure firms improve their approach to their liquidity risk management, stress testing and CFPs we remain committed to implementing the systems and control requirements from December 2009.

We are committed to working with our international colleagues to deliver a greater level of resilience to liquidity risk. We strongly believe that implementing the new liquidity risk framework without delay is imperative and compliments international progress.

Approach to management of liquidity risk and scope of application

Q13: Do you agree with the approach taken in BIPRU 12.3 & BIPRU 12.4 in relation to systems and controls requirements?

Almost all the respondents agreed with the approach taken in BIPRU 12.3 & BIPRU 12.4 in relation to systems and controls requirements. Respondents asked about the scope for firms to implement bespoke policies, processes and systems that were most suitable for the firm or group. Respondents also queried the need for less complex, smaller firms to manage their intra-day liquidity, collateral positions or funding diversification to the extent required in the proposed rules.

We believe that the structure of the proposed rules – where overarching principles are supported by more detailed guidance and/or evidential provisions – give firms the flexibility to implement a bespoke liquidity risk management framework that is aligned with the nature, scale and complexity of their liquidity risk.

We are working with relevant trade associations to provide additional support to help less complex, smaller firms implement the new standards in an appropriate and effective way.

Liquidity risk management

Q14: Do you agree with the proposed overarching systems and controls requirements for liquidity risk management?

The vast majority of respondents supported the proposed overarching systems and controls requirements for liquidity risk management. However, many stressed that the appropriateness of this would depend on whether firms would be permitted to implement the requirements in a proportionate way. They believed that this would not only depend on the rules and their level of prescription, but also on supervisory practices. Respondents highlighted the need for supervisory assessment of liquidity risk management practices to also consider the nature, scale and complexity of the firm's liquidity risk.

A few respondents said that the proposed standards were potentially overly prescriptive and could result in a disproportionate application of the regime. Some asked for a distinction between the requirements for full-scope BIPRU investment firms and limited licence and limited activity BIPRU investment firms.

Proportionality is a key component of the qualitative proposals. The reasoning for this stance is set out in Chapter 5 of the Policy Statement (PS).

We agree that proportionality should be a factor in supervisors' assessment of the appropriateness of a firm's liquidity risk management framework.

For simplicity, we have not separated the application of the new requirements; however, we have included additional guidance and evidential provisions in the Handbook where we thought this would help clarify the requirements.

Industry response

FSA response

Q15: Do you believe that the requirements placed on firms' governing bodies and senior management deliver the right degree of oversight?

The vast majority of respondents agreed a firm's governing bodies and senior management should be required to oversee and be ultimately responsible for the firm's liquidity risk management framework.

Respondents sought reassurance that these governance requirements would not be too onerous for smaller and less complex firms, and clarity on how senior management responsibility would align with individual entities and the group as a whole, particularly if the group contains a branch or foreign head office.

A few respondents felt that it was very difficult for firms to articulate their liquidity risk tolerance, suggesting that we should adopt a 'comply or explain' approach to the setting of liquidity risk tolerance.

We believe that the new liquidity regime should achieve a balance between effective liquidity risk management frameworks and the impact on a firm's resources. We have stipulated that a firm's governing body regularly review its liquidity risk management framework. We have provided firms with some discretion to decide the frequency of this review, with a minimum annual frequency. We consider this minimum requirement to be reasonable for all firms, while allowing for firms to set more appropriate timeframes for the review.

We would expect the senior management of branches required to meet the self-sufficiency requirement to be responsible for the management of that branch's liquidity risk. However, we are willing to consider alternative apportionment of senior management responsibility, where firms apply for a modification and justify it in their application.

We have expressed the importance of a firm articulating its liquidity risk tolerance and continue to hold this view. To help firms understand what we require in this regard, we will seek to include relevant material in the industry training programmes scheduled for Q4 2009.

Industry response

FSA response

Q16: In your view, are the proposed requirements adequate to ensure that firms quantify the liquidity costs, benefits and risks arising from their business activities?

Most respondents agreed with the principle of requiring firms to quantify the liquidity costs, benefits and risks arising from their business activities. Two respondents stated that such a requirement was too onerous for smaller, less complex firms. A number of respondents were concerned about the cost of complying with such a requirement.

The detailed Handbook text supporting requirement on firms to price liquidity risk takes the form of evidential provisions. This provides firms with scope to design and implement processes and systems that are proportionate to the firm's nature, size and complexity.

We recognise that pricing liquidity risk can be a costly exercise; however pricing liquidity risk is an area in which firms can and should advance. Pricing of liquidity risk is essential for a firm to understand the extent of its liquidity risk and be more aware of the cost of providing liquidity. A robust liquidity-risk pricing mechanism will assist in reducing the vulnerability evident in the recent financial crisis. We believe the benefits of a robust liquidity-risk pricing mechanism outweigh any potential cost of enhancing such a mechanism.

Q17: Do you believe that we have adequately addressed firms' requirements in relation to intra-day management of liquidity?

The majority of the respondents agreed that we had adequately addressed firms' requirements relating to intra-day liquidity management. Some respondents warned that these requirements needed to be applied proportionately, taking into account a firm's nature, size and complexity, particularly the type of activities a firm is conducting. A few respondents acknowledged that it was appropriate for them to manage intra-day liquidity, but added that the management of this risk would vary materially in complexity and magnitude.

Two respondents queried why we were asking firms to measure their daily intra-day liquidity on a gross basis rather than on a net basis, as recommended in Recommendation 11 of the CEBS *Technical Advice to the European Commission on Liquidity Risk Management*¹.

One respondent asked us to confirm their assumption that the management of intra-day liquidity related to settlement banks only.

We agree with respondents that the measures implemented by firms to manage their intra-day liquidity be proportional to the firm's nature, size and complexity.

However, we disagree with the view that the CEBS advice recommends intra-day liquidity to be measured on a net basis. The CEBS advice recommends that firms manage their intra-day liquidity irrespective of whether an institution uses net or gross payment and settlement systems.

The assumption that the management of intra-day liquidity relates to settlement banks only is inaccurate. BIPRU 12.1.1R sets out the application of BIPRU 12.3 and 12.4

¹ Second part of CEBS's technical advice to the European Commission on liquidity risk management: Analysis of specific issues listed by the Commission and challenges not currently addressed in the EEA; CEBS 2008 174; 18 September 2008.

Industry response

FSA response

Q18: What are your views on our proposals for ensuring that firms are able to manage their collateral positions proactively?

Respondents generally agreed in principle that firms should be able to manage their collateral position proactively.

A small number of respondents were uneasy about the requirement to take into account the extent to which counterparties may have re-hypothecated collateral deposited with them.

Respondents felt that it was either impractical or too difficult to achieve. Some also expressed concern over the timeframe to implement an appropriate process to satisfy this requirement.

The recent crisis revealed that firms were not sufficiently aware of whether assets they placed as collateral had been re-hypothecated by their counterparty. This resulted in many firms believing that more assets could be mobilised in a timely manner than was actually the case.

We believe that awareness of assets being re-hypothecated is achievable, either by verifying those contracts entered into by the firm, which allows its counterparties to re-hypothecate the asset placed as collateral and/or where possible (e.g. in a stock lending situation), requiring the counterparty to notify the firm of any re-hypothecation of these assets.

Q19: What are your views on our proposal for ensuring that firms actively monitor and control liquidity risk exposures across legal entities, business lines and currencies?

Respondents generally agreed with the proposal for firms to actively monitor and control liquidity risk exposures across legal entities, business lines and currencies.

Respondents stated that although they were prepared to provide a segmented view of their liquidity risk management, this should complement group-wide liquidity risk management and not detract from it.

We agree with the respondents' view that actively monitoring liquidity-risk exposures across legal entities, business lines and currencies should be part of and complement a firm's group liquidity risk management standards.

In addition to the above, and in relation to firms that form part of a group, we expect those firms to consider the impact any group arrangements may have on their own liquidity positions, including having regard to and a clear understanding of any constraints – legal, regulatory or operational – on the transferability to them of funds and collateral by other entities in that group. We believe firms should clearly identify their assumptions regarding the transferability of funds.

Industry response**FSA response**

Q20: In your view, are the proposed requirements sufficient to ensure that firms establish an adequate funding strategy?

Respondents generally agreed that the proposed requirements for firms to establish an adequate funding strategy were appropriate. However, they advised against overly prescriptive requirements as this might limit a firm's scope to adopt the most suitable funding strategy.

Some respondents also queried whether smaller, less complex firms would have the ability to diversify their funding lines.

The proposed funding strategy standards centre on a high-level principle supplemented by guidance and evidential provisions. This allows firms to design and implement a funding strategy that best suits their operational model.

Stress testing

Q21: Are there any further requirements that may be necessary to improve the quality and effectiveness of firms' stress tests?

In general, respondents considered that there were no further requirements necessary to improve the quality and effectiveness of firms' stress tests. However, a few respondents did suggest that the stress testing requirements in BIPRU 12.4 should be consistent with the requirements currently being consulted on in CP08/24, *Stress and scenario testing*.

The requirement to test for liquidity stresses is conceptually identical to the high-level principle in CP08/24, which requires firms to stress-test their risks. Firms should consider the interaction between the CP08/24 proposals and those in CP08/22 as they will both have implications for liquidity management.

Industry response**FSA response**

Contingency funding plans (CFPs)

Q22: Do the proposals go far enough to improve the quality and effectiveness of firms' CFPs sufficiently?

The majority of the respondents agreed that the requirements for CFPs were appropriate. A few warned that these plans and the resources dedicated to designing and implementing them needed to be proportionate to a firm's nature, size and complexity.

A few respondents also warned against inadvertently creating signals that could be misinterpreted and result in false conclusions being adopted on a firm's liquidity position.

We acknowledge and are aware of the respondents' concerns regarding negative signalling. This can be mitigated to an extent by designing a programme that tests a firm's CFP regularly and randomly. Further to this, as we are unclear about the components of a firm's CFP, we cannot assess the extent of this risk. We will carefully maintain vigilance on this issue and review whether we should adjust this requirement to further mitigate the risk posed by negative signalling.

Supervisory review of qualitative requirements

Q23: What are your views on our approach to reviewing firms' compliance with our qualitative requirements?

Approximately half the respondents expected a more rigorous supervisory review of their liquidity risk management standards. They asked for detailed feedback in the ARROW review and a report on the firm's position in relation to its peers, as this would greatly assist a firm in improving its liquidity risk management standards.

We believe that the structure of the proposed rules – where overarching principles are supported by more detailed guidance and/or evidential provisions – give firms with flexibility to implement a bespoke liquidity risk management framework that is aligned with the nature, scale and complexity of their liquidity risk.

We are working with relevant trade associations to provide additional support to help less complex, smaller firms implement the new standards in an appropriate and effective way.

CP08/22 Chapter 4 Individual Liquidity Adequacy Standards (ILAS)

Industry response

FSA response

Background

Q24: Is the ILAS regime the right approach to address the concerns raised about our current regime?

Most respondents welcomed the design of the regime – in particular, its similarity to the Internal Capital Adequacy Assessment Process (ICAAP). They noted that the regime represented a major improvement on existing policies which are focused on prescriptive ratios that underestimate or fail to capture risks.

However, smaller and/or simpler firms said that the proposed regime was disproportionate and not appropriate for their business model.

Our final proposal remains an individualised stress-testing regime.

We have exempted many of the smaller and/or simpler firms from the requirements of producing an Individual Liquidity Adequacy Assessment (ILAA).

Defining our risk appetite

Q25: Do you agree that we should express our risk appetite in terms of the type of stresses we expect firms to be able to withstand? If no, how would you suggest our risk appetite be articulated?

Respondents agreed that we should set our risk appetite in terms of stresses that we expected firms to withstand.

However, many said that conducting three separate stress tests (market-wide, idiosyncratic and combination) was redundant, given that the combination stress was always more likely to be the toughest standard.

We agree that it is likely we will set our risk appetite based on the results of the combination stress test. However, we think it is important that firms consider the individual stresses in isolation, as some risks (e.g. franchise viability), might materialise in a different fashion, and some contingency funding actions may be unavailable in the few stresses in isolation.

Industry response**FSA response**

Benefits and drawbacks of prescription

Q26: What are your views on our analysis of the benefits and drawbacks of prescriptive requirements?

Most respondents said that the drawbacks of a prescriptive approach outweighed the benefits. One said that: 'We strongly believe that the quality of any risk management process is negatively correlated to the level of prescriptiveness.'

Respondents said they were concerned that a lack of prescription would make it difficult to ensure that all firms were subject to the same standards.

We agree that too much prescription would undermine the individualised policy approach. However, we will be prescriptive in a number of areas to ensure consistent application of our risk appetite.

We plan to take appropriate steps outlined in Chapter 7 to ensure that firms are subject to broadly similar standards that are maintained over time.

Individual Liquidity Adequacy Assessments (ILAA)

Q27: How often do you think the ILAA should be carried out?

Respondents agreed with our proposed approach that an ILAA should be updated at least annually, but more frequently if there was a material change in liquidity risk. They said that elements of a firm's ILAA, e.g. the CFP might need to be updated more frequently.

The approach is unchanged in the final policy.

ILAA stresses – applying our risk appetite in practice

Q28: Is two weeks sufficient as a time period for an idiosyncratic stress? Would a longer time period (such as one month) be more appropriate?

Respondents said a two-week severe idiosyncratic stress was the minimum a firm should consider, and many felt that a longer one-month period was warranted.

We agree that two weeks is too short and that it would encourage cliff effects, whereby a firm's position would deteriorate rapidly in longer stress scenarios. To combat this we have chosen a three-month period with an initial severe stress period of two weeks, which will deliver an appropriate resilience.

Industry response

FSA response

Q29: What are your views on the level of prescription embedded within the idiosyncratic liquidity stress and on the particular parameters where specified? Should more descriptive detail on the stress be included in the Handbook?

Respondents said some level of prescription was required to ensure consistent standards, but felt that too much prescription was inappropriate given that this is, by nature, a firm-specific event.

Some respondents said our prescription was too severe, e.g. loss of secured funding, and that we should be more specific about what we meant for downgrade triggers.

We propose broadly maintaining the level of prescription proposed in the consultation.

Although some of the prescribed assumptions are severe, we disagree that they are inappropriate as they fall into the category of 'plausible, but extreme' and think that firms should consider such stresses.

Q30: What are your views on the level of prescription embedded within the market-wide liquidity stress and on the particular parameters where specified? Should more descriptive detail on the stress be included in the Handbook?

Respondents said that to predict the impact of the next market-wide stress would be unachievable, but that high-level prescription would provide useful benchmarks for industry to develop further.

Some respondents said some of our prescription was too severe, e.g. illiquidity in FX swap markets.

We feel that although some of the proscribed assumptions are severe, they are 'plausible but extreme'.

Q31: Do you agree that the stress testing that we propose for the ILAA is the most appropriate way of applying our risk appetite in practice? Do you agree with the severity of the stress assumptions?

Respondents said the stress testing we proposed was appropriate, but said that in addition we should set gross caps to limit certain liquidity risks.

Most respondents said we should only consider the combination stress test as outlined in Q25.

We maintain our intention to set structural balance sheet limits for firms and have incorporated the combination stress into the final Policy Statement.

Q32: Have we succeeded in striking an appropriate balance between firms retaining ownership of stress-testing requirements while restricting the scope for an uneven implementation of our risk appetite, thereby optimising the level of prescription in the stresses?

Respondents broadly agreed.

Our approach remains broadly unchanged although we have clarified explicitly our prescriptive elements.

Industry response

FSA response

ILAA methodology

Q33: Do you agree that we have identified the most relevant sources of liquidity risk?

Some respondents said wholesale unsecured and secured funding risk should be separated, and that we should be more specific by including reputational (i.e. non-contractual) behaviour in franchise-viability risk.

We agree that wholesale secured and unsecured funding should not be treated identically, but feel that given the overlapping investor and borrower base they should all be treated within wholesale funding risk.

We propose firms should incorporate reputational risks in their ILAA.

Q34: To what extent will the proposed methodology help the ILAA achieve its purpose?

Respondents said that it would be helpful for us to produce a pro-forma ILAA so they could gauge the answer to this question in more detail, but they broadly felt that it would achieve its purpose.

We propose to provide further information about the ILAA process on our website.

Sources of liquidity risk

Q35: Are there any other factors that we should ask firms to consider as part of their assessment of wholesale funding risk?

Respondents said that the guidance in the Handbook text was appropriate; however, there might be individual firm circumstances that would render guidance inappropriate, e.g. overseas funding might be stickier than domestic funding for an overseas firm.

We agree that there may be circumstances in which individual firms would mean the guidance was inappropriate, firms should be free to use their own assumptions for assessing the stickiness of deposits.

Q36: Are there any other factors that we should ask firms to consider as part of their assessment of retail funding risk?

Respondents said it was difficult to assess the stickiness of their retail deposits to a reasonable degree of accuracy, given the existence of a tipping point. They noted that at the tipping point a retail run became unstoppable and there was a lack of data available surrounding retail runs from which firms have successfully recovered.

Some respondents said we were placing an over-reliance on the length of deposit relationships and deposit insurance in assessing stickiness.

We note the feedback.

In our final policy we provide that firms take a 'comply or explain' approach to estimating stressed retail outflows.

In addition, Annex 2 contains a number of retail run scenarios to assist firms in this endeavour.

Industry response

FSA response

Q37: Are there any other factors that we should ask firms to consider as part of their assessment of intra-day liquidity risk?

Respondents said we had identified the key factors influencing intra-day liquidity risk.

We note the feedback.

We have redrafted the final handbook text to aid clarity.

Q38: Are there any other factors that we should ask firms to consider as part of their assessment of group risk?

Respondents said that we should consider the relevant importance of the subsidiary to the parent firm.

One respondent said we should also consider the liquidity risk caused by intra-group derivative transactions.

We note the feedback given. However, because of the potential conflicts of interest between a parent and its subsidiary at times of severe stress, we do not propose to make special cases for subsidiaries that might be relatively important to their foreign parent.

Our final policy view is that maturing intra-group deposits and loans are a potential source of instability in a stress.

Q39: Are there any other factors that we should ask firms to consider as part of their assessment of cross-currency liquidity risk?

Respondents said we had identified the key factors influencing cross-currency risk.

We will implement the approach on which we consulted.

Q40: Are there any other factors that we should ask firms to consider as part of their assessment of off-balance sheet liquidity risk?

Some respondents (larger firms) cautioned that off-balance sheet risk with respect to derivatives was very complex, and that we had not identified all factors. They commented that there was unlikely to be a 'one size fits all' approach that will give the right answer.

In addition, derivatives are often hedging on-balance sheet exposures such that movements in market prices may produce off-setting liquidity flows in many cases, or market-neutral hedges in the trading book might have significant liquidity risk, if some contracts were collateralised and some were not.

Some respondents (smaller firms) were concerned that because they did not undertake complex derivative activity they would face disproportionate impacts from any requirements to monitor and measure it.

We have expanded the final Handbook text to provide guidance to firms on the liquidity risks of derivatives.

Industry response

FSA response

Q41: Are there any other factors that we should ask firms to consider as part of their assessment of franchise-viability risk?

Some respondents said we should include more explicitly reputational issues in franchise-viability risk.

We have amended the Handbook text to provide greater clarity.

Q42: Are there any other factors that we should ask firms to consider as part of their assessment of marketable assets risk?

Most respondents said we should explicitly reference whether a security was eligible for central bank operations as a key driver of the marketability of securities in the private markets.

Some respondents said they were active in the repo markets and stressed that marketability would depend on market access and presence.

We do not agree that because a central bank accepts a security in monetary operations the security will always be liquid in the private markets.

In our view we need to be careful of reducing the cost of the liquidity buffer at the expense of increasing the likelihood that liquidity support will have to be provided by the public authorities rather than the private markets.

We agree that a firm's market presence can influence the marketability of a firm's assets; however, in the Handbook text we ask firms to assess this as part of their wholesale secured funding.

Q43: Are there any other factors that we should ask firms to consider as part of their assessment of non-marketable assets risk?

Firms felt that we should recognise management actions that would generate inflows from non-marketable assets.

We are very sceptical of firms' ability to do this in a severe stress, particularly when many other firms are attempting the same actions, as observed in recent events.

Q44: Are there any other factors that we should ask firms to consider as part of their assessment of funding diversification risk?

Some small firms said that, given their size it was impractical for them to diversify their funding sources.

Other respondents said that we should be clearer that concentrations occurred within specific funding programs depending on whether a small number of large investors or a large number of small investors were participating.

We agree with these points.

Industry response**FSA response**

Q45: Do you agree with our view that firms need to maintain an adequate buffer of high-quality unencumbered liquid assets? Do you agree with our counter-cyclical approach to individual liquidity guidance (ILG) in this regard?

All respondents agreed that they should maintain a buffer of unencumbered liquid assets to ensure against liquidity stresses. Most respondents agreed with our counter-cyclical approach, but felt more clarity was needed over what this actually entailed in practice.

With regards to a firm's ability to use their buffer in a stress, we have included additional text in the Handbook to set out the likely consequences for a firm which draws on its buffer in periods of stress.

Q46: What are your views on our overall approach to ILG?

Respondents were broadly supportive of the approach, but felt we should be specific about which of the three proposed stress tests we would base ILG on, and clear about whether it was a dynamic or fixed requirement. It would also be important to manage the transition to increased levels of liquidity appropriately.

We have incorporated this feedback into the Policy Statement.

ILG and time consistency

Q47: To what extent will the measures we propose help to ensure time consistency will be sufficient?

Respondents said it would be difficult to ensure standards were maintained over time. They were not convinced of the need for a separate liquidity risk publication, saying that it could be incorporated into the Financial Risk Outlook (FRO).

We plan to produce an internal peer group analysis process to help ensure that standards are maintained over time. We do agree that the Financial Risk Outlook is the publication most-suited for distributing system-wide discussions of liquidity risk.

CP08/22 Chapter 5 Quantitative standards for simpler firms

Industry response

FSA response

Regulatory challenges with ILAS simpler firms

Q48: Have we adequately addressed the challenges faced by firms with simpler business models?

Respondents were supportive of reduced quantitative requirements for firms with simpler business models. However, they were concerned by some elements of the detail, such as currency and business model restrictions.

We have made some changes to the final policy based on this feedback as outlined in our response to question Q49

A standardised buffer ratio for simpler mortgage banks and building societies

Q49: Are the conditions for the use of a standardised buffer necessary and sufficient?

Most respondents believed that the three conditions for simplified ILAS eligibility were well formulated. The majority of constructive comments related to the currency and asset restrictions.

FX: Supporters for this component said that it would greatly simplify liquidity risk, as the firm focused on the domestic sterling market only. Critics said that this restriction was unduly onerous, preferring a position that would allow foreign currency exposure with a materiality threshold.

Majority mortgage assets: Some supported this position. An example is where a firm said that this completes the picture of the simpler retail firm. Many respondents said that this should be widened, as it was not clear why non-mortgage banks should be ineligible for this approach

Less than 30% wholesale funding: There were few respondents that mentioned this condition. Those who commented on this said that it was a sensible cut-off, which they strongly supported.

The eligibility criteria for the simplified ILAS regime have been widened from those proposed in CP08/22. Now more business models would be covered and modest FX exposure is allowed.

FX: We now allow currency exposure. If the vast majority (at least 99.5%) of a firm's assets and liabilities are denominated in dollar, euro and sterling, they can still be eligible for the simplified ILAS regime.

Mortgage assets: This has been widened to enable us to cover an additional three simple business models – the *simple retail bank* (high proportion of lending to individuals), the *Money Box* style bank (aggregates deposits, then invests them in short-term money market instruments), and the *small wholesale bank* (predominantly funded by the parent).

Wholesale funding: This has been reduced to 25% to better reflect the levels of wholesale funding that simpler firms tend to have.

Industry response

FSA response

Q50: Should the FSA refine the threshold for application of the standardised buffer?

Thresholds: Some respondents said that the definition was too restrictive; a degree of flexibility could be applied without materially impacting upon the overall aim of the regime; and the threshold should be adjusted by each firm and reviewed accordingly with the regulators on a case-by-case basis. They suggested that the simplified approach should also be made available to other simple banking and investment firm models.

FX: Respondents were less positive about the foreign currency restriction, saying that a firm with a very low level of currency exposures should be eligible for the standardised buffer. They suggested a materiality threshold, where the cut-off would be where currency exposures fall below a small percentage either of the balance sheet or of own funds.

Liquid assets buffer: Respondents said that the conditions were probably sufficient, but that a standardised buffer could potentially induce a systematic risk. They suggested that firms would be best suited to assess the proper size of the buffers and their components.

Thresholds: Widened to cover more business models (see above). Waiver process, so will review eligibility on a case-by-case basis.

FX: We now allow modest currency exposure (see above)

Liquid assets buffer: The eligibility criteria for the liquid assets buffer have been widened from just Treasury bills. Now any asset that is eligible for the full ILAS regime will also be eligible for inclusion in the simplified ILAS buffer. Simplified ILAS firms may also count investments in certain Qualifying Money Market Funds. Additionally, the Bank of England has announced that all firms eligible in principle to pay Cash Ratio Deposits, whether or not their balance sheets are in practice of a size that requires them to do so, will in future be eligible to apply for access to the Bank's Sterling Monetary Framework facilities, including a reserve account.

Q51 Have we sized the retail deposit and mortgage pipeline stresses appropriately?

Retail stress: There was little feedback on this component. Some respondents said that the retail deposit stress looked weak for a three-month period. Others noted that the stresses could be very difficult to assess, even given recent events, and that although they may have been deemed appropriate at the time, they may need a degree of flexibility.

Mortgage pipeline: In relation to mortgage commitments, some respondents said that they hoped longer-term, draw-down commitments on flexible and lifetime mortgages would be excluded from the calculation as the amount that is likely to be drawn during a 90-day period is minimal, whereas the commitment itself may be significant.

Retail stress: In light of further analysis on retail runs, the minimum retail stress that can be used under the simplified regime has been increased to 10% of all retail.

The retail outflow component of the ratio will depend upon the quality of the firm's retail book. A higher stress of 20% will be applied to more risky retail deposits.

Industry response

FSA response

Q52: What will be the impact of discouraging firms from funding long-term assets with short-term wholesale funding?

Some respondents believed that a high degree of maturity transformation was unsustainable, supporting the impact of discouraging maturity transformations. They questioned whether the increase in cost for firms that were required to adopt alternative strategies would be proportionate to the risk mitigated.

Others believed that maturity transformation was the fundamental, sustainable business of banks, and that the policy could reduce general lending in line with the amount of retail funding available.

The respondents believed that meeting the new requirements could be difficult for smaller firms that might not have the same degree of access to longer-term funding.

We have acknowledged the industry response to this question. The impact of the policy on firms and markets will be assessed in the cost benefit analysis (CBA).

Q53: What will be the impact of only recognising treasury bills with a residual maturity of less than three months as liquid assets for regulatory purposes?

Respondents strongly believe that Treasury bills provided inadequate liquidity protection under stress, and that they would be a prohibitively expensive source of liquidity.

Some respondents suggested that the following assets could be considered: gilts; deposits with the Bank of England; government-guaranteed and supranational bonds; cash; and government-guaranteed certificates of deposits.

Respondents also suggested that cash held with a UK clearing bank should be admitted as an acceptable alternative, acknowledging the credit risk associated with this approach. However, one respondent said that credit risk was unavoidable, and could be controlled through the large exposure limits under the CRD amendments.

They also suggested that money market funds would be a good source of short-term liquidity, stating that there was little evidence to suggest that these had become illiquid, even during difficult market conditions.

Liquid assets buffer

The liquid assets that are eligible for the simplified ILAS buffer has been widened from just Treasury bills. Now any asset that is classified as liquid for ILAS purposes and certain Qualifying Money Market Fund investments will also be accepted in the simplified ILAS buffer.

Additionally, the Bank of England has announced that all firms eligible in principle to pay Cash Ratio Deposits, whether or not their balance sheets are in practice of a size that requires them to do so, will in future be eligible to apply for access to the Bank's Sterling Monetary Framework facilities, including a reserve account.

Industry response**FSA response**

Smaller wholesale firms with heterogeneous business models

Q54 Do you agree that smaller wholesale firms have diverse liquidity business models, which means that the development of a simple ratio would be imprudent?

Some respondents disagreed. They said that although smaller wholesale firms have diverse liquidity business models, they were not necessarily more risky than building societies, supporting the application of a simple ratio.

The eligibility criteria for the simplified regime have been amended. Now smaller wholesale firms that are predominantly funded by the parent could be eligible for the simplified ILAS regime.

Q55 How practicable would it be to require smaller wholesale firms to undertake an ILAA?

Many respondents said that they did not consider it practicable or advantageous to require smaller firms to undertake ILAAs, noting the human resources and technological constraints that smaller firms would have relative to the larger firms. They felt that this would lead to a disproportionately high cost for smaller firms and could jeopardise the viability of small firms' business model.

However, others said that it was both necessary and practical for smaller firms to undertake ILAAs, albeit at additional cost. They felt that the benefits far outweigh the costs.

A number of firms said that they would welcome a similar approach to ILAA to that adopted for ICAAP, i.e. firms that were systemically less significant were not required to submit a full assessment (for example, combining a standard buffer, such as the expenditure-based requirement, with stronger ICAAP guidance that would address key elements of systems and controls around liquidity management).

Firms on the simplified ILAS regime will not be required to conduct an ILAA.

CP08/22 Chapter 6 Liquid assets buffer

Industry response

FSA response

Role and calibration of the buffer

Q56: Do you agree the FSA should issue individual guidance to firms on the appropriate size of the liquid assets buffer, and that this should be based on the outcome of the defined stresses under the ILAS framework??

Almost all respondents were in favour of us setting ILG on the basis of the ILAS process, and that it should reflect the particular business models.

We remain of the view that ILG should be set through the ILAS process, which invariably entails us reaching our own view on the appropriateness of a firm's liquidity risk profile.

A standardised buffer ratio for simpler mortgage banks and building societies

Q57: What are your views on the appropriateness of the assets listed above for use in the liquid assets buffer?

Most respondents thought that our definition of liquidity assets was too narrow and should instead be linked to those assets eligible at the central bank.

We remain of the view that our definition of liquidity assets should not be limited to central banks eligibility and should comprise those assets that are most liquid in the market under stress conditions. We define such assets as government bonds. Chapter 8 of the PS explains in detail our rationale behind this policy.

CP08/22 Chapter 7 Group-wide management of liquidity

Industry response

FSA response

Regulatory issues

Q58: To what extent should the FSA have regard to both going and gone concern scenarios when considering the appropriateness of a regime for group-wide management of liquidity?

Almost all respondents argued in favour of taking both going and gone concern scenarios into account in the design of a regime for the supervision of cross-border firms. However, respondents were divided over how we should achieve this objective, with some cautioning against 'trapping' liquidity, as that could increase the probability of failure.

Others stressed that a key lesson from recent events was that some firms held insufficient local liquidity in the appropriate currency. This undermined the objective of ensuring that a firm meet its liabilities in all currencies as they fell due, thereby increasing the probability of failure.

We remain of the view that our new regime for regulating the liquidity of cross-border firms should have regard to both going and gone concern scenarios. The risk of allowing liquidity to move freely within groups during business-as-usual is that there may be unforeseen impediments to the ready transfer of liquidity (within or outside the control of the firm) during periods of stress.

Also, during an idiosyncratic stress a firm might have to meet its currency-specific liabilities in all entities at the same time due to intra-group reputational contagion. Therefore, we believe we must ensure that a firm has access to sufficient local liquidity, free from potential transferability impediments.

Industry response

FSA response

Q59: Do you agree that the management of liquidity across international groups is optimised by having equal regard for the liquidity of the group and its component entities?

Most respondents were divided over whether there should be equal regard to group liquidity versus the liquidity of a group's individual entities. Those in favour of a group-wide approach stressed that trapping liquidity in individual entities could result in less intra-group funding being available to meet liquidity demands elsewhere in the group.

Some respondents also highlighted the risk of a local-entity approach to liquidity supervision resulting in other regulators 'reciprocating' and trapping the liquidity of an increasing number of international groups. This could lead to the fragmentation of the global financial system.

Those in favour of a legal entity approach to liquidity supervision maintained that it was the only way of ensuring that each individual entity had sufficient currency liquidity to meet liabilities in all eventualities, and mitigating contagion from other parts of the group. They also made the point that national authorities tended to ringfence liquidity in a crisis, creating uncertainty as to how much liquidity was truly available to transfer across borders.

Those respondents who referred to branches in their feedback said unanimously that component entities should not mean branches, citing that they were part of a wider legal entity and ringfencing the liquidity of a branch would not limit contagion from a whole-firm failure.

As stated previously, it is our objective that a group be able to meet its liabilities in all entities as they fall due under stress. We believe that this can be achieved by requiring individual entities to have access to sufficient local liquidity.

We appreciate that this could result in other regulators following suit and requiring UK firms to hold sufficient liquidity in other jurisdictions, leading to an increase in local liquidity holdings.

Where this is the case, we expect calibration of any local liquidity requirements to be risk based and non-discriminatory. However, regulators are generally tightening liquidity standards which are likely to affect some firms more than others. Many internationally active firms have successfully operated liquidity models that will not be impacted materially by the new regime, so we do not believe that its introduction is likely to trigger the fragmentation of the global economy.

We agree with respondents' concerns in relation to branches and we will therefore maintain our proposed approach of allowing branches to apply for a whole-firm modification. This should have broadly the same effect as the current Global Liquidity Concessions (GLCs) where, subject to certain conditions, most elements of our regime cease to apply and the day-to-day supervision of liquidity is transferred to the home state regulator.

Industry response

FSA response

The current regime

Q60: Do you agree that the FSA should implement a new regime for considering the appropriateness of group management of liquidity?

Almost all respondents agreed that a new process for supervising and considering the appropriateness of group liquidity management was needed. In doing so, they either warned us not to take too much of a nationalistic approach on the one hand, or to insulate UK firms insufficiently on the other, thereby exposing local consumers to foreign groups with inadequate liquidity risk management standards.

Respondents also cited the need for more clarity on how our new waivers and modifications regime would work in practice before being in a position to offer definitive views.

In line with responses, we remain of the view that our approach to group-wide management of liquidity, including the current GLC regime for branches, should be updated. Chapter 9 of the PS provides more information.

Our proposed new format

Q61: Have we adequately described the issues that the FSA would need to address with home regulators before agreeing to modify or waive BIPRU 12?

Respondents were unclear about whether the existence of creditor preference arrangements in a certain country would prohibit a firm from that country from applying altogether for a waiver/modification. Some questioned why we were seeking to address this issue in the context of liquidity regulation, with it being just as relevant, if not more, to solvency regulation (given that it is primarily a gone-concern issue).

Respondents also suggested that more clarity was needed on how we would interpret equivalence, especially to avoid having to plan for parallel processes for the waiver/modification and self-sufficiency route. They also thought we were proposing too high a threshold for assessing equivalence, which could prohibit us from considering waivers from many firms.

We agree that the existence of creditor preference regimes in other countries is a gone concern issue that is just as relevant to capital as it is to liquidity, if not more. Therefore, we have removed this condition from the list of considerations in relation to the assessment of the statutory tests when granting waivers from our liquidity requirements. We will, however, consider which area of the FSA should pursue this issue further.

We agree that an equivalent liquidity regime abroad may not necessarily result in a firm's liquidity profile delivering an equal level of resilience to that delivered by our own regime. We have therefore decided to move to a position of assessing broad equivalence. As a result, we will consider a waiver application from firms whose regime is not considered fully equivalent.

Industry response

FSA response

Q62: Have we adequately described the issues that the FSA would need to address with the firm and whole-firm/parent before agreeing to modify or waive BIPRU 12?

Respondents thought that more clarity was needed on the format and frequency of the reporting requirements.

Whole-firm/parent reporting will be required on the basis of the new data items FSA047 and FSA048, as set out in Chapter 10 of this PS. The frequency will be determined on a case-by-case basis, depending on the significance of the UK entity to our statutory objectives. For more significant firms this should be no more than quarterly and for less significant firms no more than annually, with a one-calendar month submission deadline for all.

Q63: Does the requirement for the whole-firm/parent to undertake to commit to provide liquidity support in certain events have the effect of an irrevocable and enforceable indemnity? If not, how could this be achieved and would this be desirable?

There was general uncertainty about how this could be achieved in practice, due to enforceability issues that could arise in a gone concern scenario, primarily due to the different insolvency laws that would apply.

Such commitments could take different forms. We would ask firms to consider the various options open to them and suggest to us, as part of the intra-group modification application, what they think could be sufficient. We expect in most cases the liquidity support to take the form of a committed line.

Q64: Have we adequately described the ongoing conditions that we would need to impose on any modification or waiver of BIPRU 12?

Please see responses to the above questions.

Please see responses to the above questions.

CP08/22 Chapter 8 Discussion: liquidity reporting

Industry response

FSA response

Feedback to questions Q65 to Q82 in CP08/22 were addressed in detail in CP09/13, *Strengthening Liquidity Standards 2: Liquidity reporting*.

CP08/22 Chapter 9 Cost benefit analysis (CBA)

Industry response

FSA response

Estimates of costs due to holding increased liquid assets

Q83: Do you agree with our cost estimates for the increased holding of liquid assets? What do you estimate the increased costs for increasing the holding of lower yielding assets to be for your firm?

While some firms agreed with our 150bps estimate for the cost of increased holding in liquid assets, a couple pointed out that this cost was currently around 300bps. Some respondents noted that the cost to smaller firms could be proportionately larger and perhaps reach 20% of profits.

Finally, it was mentioned that since the liquidity buffer should be funded long term, the cost calculation should consider the difference between government bonds yield and long-term funding, which would be higher than 150 bps.

In line with responses, we remain of the view that our approach to group-wide management of liquidity, including the current GLC regime for branches, should be updated. Chapter 9 of the PS provides more information.

Our updated approach to calculating the impact of the new regime considers scenarios where firms increase the term of their wholesale funding to reduce their buffer requirements.

However, we have continued to calculate the cost of the buffer assuming a 150bps loss in yield. This corresponds to the difference between the current yield to maturity of UK gilts and the average return on assets for a number of UK banks.

Q84: Do you think firms will pass on the incremental costs of holding additional lower yielding assets to their customers?

Most respondents believed the incremental cost of holding lower-yielding assets would be passed on to customers. Some thought this could pose competition issues, notably for smaller firms, which could incur a proportionally higher cost and may therefore be disadvantaged by the proposal.

We note the industry response to the question.

Our calculation of the macro costs will seek to quantify the increased cost in credit that could result from the new regime.

Industry response**FSA response**

Q85: How do you see firms developing their risk profile in response to the introduction of the regime?

Most respondents did not foresee significant changes to firms' risk profiles. Some mentioned a reduction in liquidity risk, since firms would hold more government debt. A couple of firms mentioned negative impact on lending supply and lending cost, as well as an increase in competition for retail deposits.

We believe that, depending on the prevailing economic conditions, when the quantitative standards are implemented, firms could comply with the standards required at lower cost if they choose to adopt a more conservative risk profile. This has been considered and quantified on our CBA in the PS (Chapter 13). The impact on lending has also been considered and quantified.

Costs due to supervisory requirements for changes in funding

Q86: Do you agree that firms will not be able to significantly alter central bank reserves in order to meet a liquid assets requirement?

Firms' responses varied. Some believed they had the flexibility to alter their central bank reserves while others thought they did not. One respondent pointed out that although firms would not permanently alter central bank reserves, it was likely that day-to-day activity would increase as firms attempted to meet the requirements of various jurisdictions.

We note the industry's feedback.

Other costs to firms

Q87: Do you agree with our estimates of implementation and ongoing costs?

Most respondents commented on the fact that the analysis did not provide sufficient detail on implementation and ongoing costs to small firms. Some believed that for limited-licence BIPRU investment firms the cost would be greater than estimated, as the complexity of the proposal would require professional advice.

Some respondents agreed with our estimate for large firms. Others considered these estimates on the low side, particularly for building societies. A couple of firms commented on the fact that self-sufficiency would impose additional costs, or that information on the cost of developing intra-day liquidity capabilities was insufficient. Finally, some firms were unable to respond as i) they couldn't estimate the cost without knowing how ILAS would work in practice, or ii) they hadn't performed their cost analysis yet.

The updated CBA in the PS assesses the impact of the regime on a range of firms that have simplified ILAS-eligible business models. This includes a number of smaller firms.

A wider range of firms has been included in the impact assessment for the standard ILAS requirements. The sample includes retail and wholesale banks, investment firms and building societies. This should ensure that the costs are representative for the population of firms that would be impacted.

Industry response**FSA response**

Q88: What do you estimate the implementation and ongoing 'other costs' to be for your firm?

Most firms were unable to assess these costs until they had more clarity and details on the final regime, including reporting requirements. They claimed that the estimation would not be trivial and some firms were concerned that costs would be significant.

For smaller firms, the cost spectrum could be very wide depending on their business model and IT system structure.

We note the industry response.

Q89: Do you classify yourself as having a simple business model?

Most respondents did not have a simple business model, but it was noted that most, if not all, building societies did. A respondent also suggested that there could be merit in considering an intermediate tier of institutions (those not being direct participants in payment and clearing services) for which a different approach could be taken to ensure the appropriate scaling.

We note the industry response. (See response to Q87 for further comment.) In the final policy we have reviewed the scope of our liquidity requirements.

Effect on UK competitiveness

Q90: Do you have any observations about the effect of the new regime on the UK's competitiveness?

Most respondents indicated that the new regime could adversely affect UK competitiveness and the attractiveness of London as a financial centre, especially if other jurisdictions did not adopt a similar approach. Other respondents, however, stressed that in the long term, one would expect business to migrate to markets that have clear, strong and equitable legal regimes and financially strong participants.

We note the industry response. While we acknowledge that in the short term the impact of our new regime on the UK's competitiveness could be adverse, we share some of the respondents' views that there are considerable longer-term benefits. These are revisited in the CBA in the PS.

Industry response**FSA response**

Wider economic impacts

Q91: Do you have any comments on the likely wider economic impacts of the ILAS regime?

Respondents pointed out that there should be a gradual transition to minimise wider economic impacts. These could include a significant reduction of credit available within the UK economy, particularly in the short run, as banks adjusted to the new regime. The proposals could also create an incentive to attract a higher proportion of retail deposits that would have to be re-priced in order to persuade depositors to extend their maturities.

As described in the PS, and as publicly stated, the path for firms to move from the present practice to compliance with the new requirements will recognise that all firms are experiencing a market-wide or firm-specific stress at present. We therefore plan to phase in the quantitative aspects of our regime in stages, over several years, paced according to wider macro-economic developments and taking into account changes to the prudential policy framework.

There are a number of options available to firms to reduce the size of the buffer requirement. We believe that for the majority of firms, the cheapest option will be increasing the maturity of their wholesale funding. The appropriateness of any business model changes in reducing buffer requirements will depend on the firm.

Reduction in expected costs of firm-level defaults

Q92: Do you believe the new liquidity regime is well designed to make individual firms more resilient to liquidity stresses?

Responses were mixed. Some respondents agreed, stressing that the new regime would encourage good practices on liquidity risk management. Others agreed, but noted that this was at a high cost, claiming that the regime should be more proportionate, especially for smaller firms.

Others noted that the new regime would not bring more resilience and indicated that it might be subject to regulatory arbitrage practices.

A number of changes have been made to make the policy less onerous for smaller firms. These are outlined in the PS.

Industry response**FSA response**

Q93: How much more stable do you believe the new regime would make your firm?

Many respondents commented that the new regime would not make them more stable and resilient, given that they were already putting in place conservative liquidity risk-management practices. However, other respondents indicated that the regime would make them more stable. Some respondents indicated that they would need to know further details of the policy to answer this question.

We note the industry response.

Reduction in expected costs of systemic crises

Q94: Do you believe the new regime is well designed to reduce the risk of systemic crises?

In general, respondents agreed that the new regime would help to reduce the risk of a systemic crisis. However, other policies, coupled with effective supervision, were needed to reduce systemic risk.

We note the industry response.

Mechanisms for benefits

Q95: By how much do you believe the new liquidity regime will improve your firm's management of liquidity risk?

Respondents believed that they had robust liquidity risk management practices in place but recognised that the recommendations represented good practice and would increase the level of understanding of liquidity risk.

We note the industry response.

Q96: Would other ways of designing the new liquidity regime be more cost-effective in improving the management of liquidity risk at your and other firms?

Respondents considered that it would be more cost-effective to have a global regulatory framework of liquidity management instead of a series of individual national responses. Some firms indicated that there were other available changes that could also be used to mitigate the risks in a more cost-effective way than the current proposals, and that the costs were likely to outweigh the expected benefits.

The liquidity policy is based on internationally-agreed liquidity risk management principles. We continue to work with regulators from other jurisdictions to improve international convergence.

CP08/22 Chapter 10 Compatibility statement with our objectives and the principles of good regulation

Industry response

FSA response

Compatibility with the need to have regard to the principles of good regulation

Q97: Do you agree that our proposed liquidity regime is compatible with our statutory objectives and principles of good regulation?

Respondents generally believed the objectives were in line with the statutory objectives and principles of good regulation.

We note the industry response.

2 Detailed feedback – CP09/13 Strengthening liquidity standards 2: Liquidity reporting

CP09/13 Chapter 1: Overview

Industry response

FSA response

Substantial changes reflecting comments received

Q1: Do you believe that our revised proposals will enhance the effectiveness and proportionality of the new regime?

Respondents universally stated that the proposals would enhance the effectiveness of the regime.

Respondents considered that the revisions made the proposals more proportionate; however, some stated that further reductions in the quantity and frequency of data collection, particularly regarding simplified firms, were required to ensure the appropriate level of proportionality.

We welcome the positive feedback. In the final proposals we have further reduced the reporting burden on smaller and Simplified ILAS firms by definition are operating simple business models and will therefore leave many of the data elements blank. The reporting regime is designed around complexity and therefore by design the regime becomes less and less onerous as firms become simpler.

We have widened the scope of the simplified regime to include additional business models. For the reporting regime we have created a low frequency reporting sub-set of firms that includes all simplified ILAS firm and all full scope investment firms with a total balance sheet below £1bn. These firms report the standardised ILAS firm weekly data items monthly instead of weekly.

The combined impact of these two measures and the inbuilt proportionality ensures that the new regime automatically accommodates simple and small firms proportionally.

Industry response

FSA response

International developments

Q2: Do you agree with our international objective of promoting standardised quantitative reporting on liquidity?

Respondents were in favour of well-designed, standardised, quantitative international reporting due to the costs for international firms of many differing regimes and because a standardised approach would facilitate discussions between regulators. Domestic firms expressed concern that any international regime would be tailored to large, internationally active firms, but applied to smaller domestic firms. Some respondents also expressed concern at the timetable for the implementation of the UK regime regarding international development of liquidity regulation.

We are fully engaged with international fora and will ensure our regime is compatible with international practice. We will argue for a regime that is appropriately risk-based and acknowledges the differences between international and non-international banks, as our new regime does. We will continue to promote standardised contractual liquidity reporting internationally.

The FSA is committed to common EEA reporting tools that substantially meet all our objectives and requirements.

Q3: What role do you believe standardised metrics should play in international supervision of liquidity?

A minority of respondents were in favour of standardised metrics to ensure equal treatment across jurisdictions. The majority believed that standardised metrics were inappropriate for assessing a risk that is complex and heterogeneous. These respondents also believed that excessive concern with metrics could lead to firms running their business to ensure these metrics and associated limits were being met rather than focusing on the underlying risks these metrics were designed to address.

Some respondents also felt that inappropriate use of metrics could drive systemic risk – for example, forcing all firms into certain positions to meet requirements. The consensus was that any metrics should be used as a starting point for more detailed analysis and understanding of a firm's liquidity risk.

Our regime uses metrics in a number of ways, both standardised and customised for specific institutions. However, these are primarily an aid or trigger for a qualitative supervisory dialogue.

The main focus of our reporting regime is multi-dimensional scenario stress testing to identify significant difference in the risks associated with different business models.

CP09/13 Chapter 2 Next steps for the wider regime

Industry response

FSA response

Phased implementation

Q4: What are your views on the appropriate implementation timetable?

Many respondents indicated that the revised timetable was an improvement upon proposals in earlier CPs. However, all respondents felt that the timetable was, at least, very challenging. Larger firms were the most positive about their ability to successfully implement the required changes. Some respondents made the point that the greater the clarity available at an early stage, the easier it would be to make the deadline. Queries and concerns surrounding the waiver process were aired in these responses.

The timetable has been revised further, in a risk-based manner, to give firms more time to prepare for the new reporting regime (see Chapter 11 of the P S).

The finalised rules and associated documentation in the PS provides clarity on the reporting requirements.

Further information on waivers and modifications has been provided in the PS and on our website.

Q5: What are your views on a gradual phasing-in of our quantitative requirements?

Respondents favoured the gradual phasing-in approach. Many agreed with the proposal to phase in the requirements for systemic firms first.

We note the feedback.

CP09/13 Chapter 3 Purpose and use of data collected

Industry response

FSA response

Overall objectives of the new reporting regime

Q6: Do you agree with the broad objectives of our reporting proposals? Are there any objectives we have omitted that should be included?

Respondents agreed with the broad objectives. One felt that the reporting proposals would also help improve firms' internal management of liquidity and ensure they examine all drivers of liquidity risk (which the respondent noted many firms had not done in the past).

We note the feedback.

Industry response

FSA response

Q7: What are your views on our proposal to feedback, on an anonymised basis, some of our analysis of the data we collect? To what extent do you believe this could have a potentially detrimental impact on certain peer groups, sectors or the wider UK financial services industry?

Answers to this question revealed confusion over the proposed scope of the sharing and with whom the data would be shared.

Sharing feedback on a firm's position within its peer group was viewed positively by those who commented on this aspect. However, within these responses there was concern that creating useful peer groups would be very challenging and there was still the risk that data may not be truly anonymous. Regarding sharing market-wide liquidity data, a minority of firms felt that there would be benefits to sharing this information if it were possible to truly anonymise the data. However, the majority felt that the risk involved in this disclosure was great and that, even if the data were truly anonymised, the risk of a perceived weakness could result in a self-fulfilling event leading to a liquidity crisis. Some respondents stated that the risk was increased if the UK were the only country to provide such data.

The majority of respondents stated that there was an over-emphasis on quantitative reporting. The argument often was that the quantitative data should be used to inform qualitative discussions with firms. Some respondents stated that it would be important for supervisors to devote time to understanding firms' individual liquidity risks. A respondent thought it would be important for us to provide clear guidance and feedback on qualitative areas, such as ILAAs, to ensure fruitful dialogues.

We will consider whether and how we can usefully share feedback with firms on their positioning within their peer group as part of the supervisory process. We recognise that identifying meaningful peer groups will be challenging, especially in relation to large, complex firms.

We will further explore the issue of sharing anonymised liquidity information more widely, and weigh the potential benefits and drawbacks. In our Financial Risk Outlook document, we express views on all major risks that affect the UK financial services system. It would be impossible to ignore views on liquidity risk from such a document. We will consider, in due course, issuing a separate liquidity risk report, given the importance attributed to this issue domestically and globally.

We fully agree with the comments received. As we have previously stated on many occasions, quantitative reporting will not replace qualitative discussions between firms and supervisors, but inform them. We are committed to undertaking thorough qualitative reviews to understand firms' individual liquidity risk profiles.

Industry response**FSA response**

Q9: Do you agree that in order for us to form a market-wide view on liquidity we need to collect largely the same data from all firms within the full scope of the regime?

It was agreed that meaningful market-wide views could only be established by harmonisation of data definitions. Respondents agreed that we should have a market-wide view of liquidity.

Smaller firms stated that a valid market-wide view could be established without including the smaller firms, as 90% of the market could be seen without capturing smaller firms – therefore, they should only submit the data required for firm analysis rather than that required for a market-wide view.

There is a need to consider smaller firms from a market-wide perspective as their behaviour in aggregate is important. Also, there is still the need to monitor them from an institution-specific perspective.

Use of the data collected

Q10: Do you believe that the actions outlined above sufficiently address industry concerns over our systems and staff capabilities for analysing the large volume of data we propose to collect?

Respondents expressed a number of different viewpoints on this question, with concerns raised on the quantity and quality of resources devoted to liquidity; the capacity of GABRIEL to collect the data; and whether liquidity stress-testing was sufficiently well developed. Many respondents remarked that they were unable to judge the changes objectively from outside of the FSA.

Suggestions were made that we could demonstrate the effectiveness of our new capabilities by demonstrating the new business intelligence (BI) tools, showing how the new systems would have identified and helped in resolving past liquidity events, and by introducing the liquidity specialists to firms.

We have significantly increased its liquidity supervisory resource to be able to implement the new regime. Significant systems investments are underway to ensure we will be able to capture and process the data speedily and effectively. The suggestions regarding communications have already been considered and will be addressed through a number of scheduled events. Our liquidity specialists have already been in contact with many of the larger firms and will be present at the aforementioned events.

CP09/13 Chapter 4 The proposed reporting regime in detail

Industry response

FSA response

Proposed data items and frequency

Q11: What are your views on the proposed data items? Are there important drivers of liquidity risk that you believe we fail to capture with the proposed reports?

The majority of respondents felt the data collected was sufficient to meet our outlined aims. Some said that the data did not fulfil the outlined needs but none provided a view of what they believed should be collected instead.

The bulk of these respondents were concerned with technical queries on data definitions. One respondent suggested establishing a working group to address such queries. Only the responses that raised questions on the fundamental approaches taken are included here, such as:

- the appropriateness of requesting vendor-specific codes or using vendor-specific nomenclature;
- concern over the burden of registering a nil return rather than not having to complete a form where the data in the form was not required for a class of firm;
- greater clarity surrounding the accuracy required of the returns was requested. A respondent stated that the data returned under the proposed timescales would not have the accuracy of other regulatory returns, which firms typically had at least a month to prepare, so they felt it was important to establish what was appropriate in this area; and
- a small number of respondents stated that they did not see the benefits of producing the Marketable Assets Form in addition to the EMR form.

We note the helpful feedback. We have incorporated much of the detailed technical feedback into the final design of the data items and the data definitions. The necessary clarification has been provided in the appropriate chapter 10 of the Policy Statement and in the SUP 16 Handbook text.

FSA050, FSA051, FSA052 have been substantially revised as a result of the consultation process.

Industry response

FSA response

Q12: Is the data we are proposing to collect sufficiently comprehensive? Should FSA047, 048 and 049 also include operational cash flows (such as tax payments/receipts and dividend payments)? Should FSA053 also include behavioural data?

All respondents felt that the data collected was sufficient for the objectives and manner of reporting we have chosen. No respondents were in favour of including operational cash flows due to the burden of collecting the data in the required time period and the fact that they did not use such data for their own liquidity management.

Responses varied on the question of using behavioural data. Many respondents were in favour of using it, stating that a purely contractual approach did not show how retail deposits actually behaved and might prove misleading. Respondents opposed to the behavioural approach felt that it was inconsistent with the approach taken in all other areas of our reporting, it was not objective and we could not have confidence in estimates given. One respondent suggested using contractual data as a starting point but performing behavioural analysis on top of the contractual returns when liaising with the firms on the qualitative assessments.

We agree with most of the responses. We do not consider operational cash flows material for liquidity-reporting purposes. We will explore behavioural aspects through our in-house stress and scenario testing, as well as qualitative supervisory reviews.

Behavioural data is by definition adjusted and not suitable as a starting point for multi-dimensional stress testing. The foundation for any behavioural adjusted management information is the underlying contractual position. We, like firms require the underlying contractual position as a starting point on which to apply common and consistent granular behavioural adjustments.

We recognise firm behaviourally adjusted management information is important firm specific information and such data will be included in the ILAA. Behavioural adjusted data is inconsistent across firms' and often over time. Structured, consistent and standardised granular data defined by the recipient is understood by the recipient. Only the sender can really understand behaviourally adjusted data.

Discussions around the appropriate behavioural adjustments for an individual firm will occur in relation to a firm's ILAA and its ILG, not reporting.

Industry response

FSA response

Q13: What are your views on the proposed reporting frequencies?

Responses to this question differed depending on the type and treatment of firm. Overall, respondents were in agreement over the frequencies for large or systemic firms, though some thought it would be challenging. It was also stated that the benefits of high-frequency reporting did not apply equally and it might be more proportionate to relax the requirements for certain fields on forms where changes occurred less frequently than the reporting frequency.

Many respondents stated that the frequency was too high for smaller firms and suggested introducing additional granularity into the reporting requirements. It was also noted that during crisis reporting, priority should be assigned to certain fields to speed up reporting, for instance, being able to report the changes in short-term cash flows.

While we still consider high-reporting frequencies important to achieve the aims of our new reporting regime, changes have been made to address some of these comments.

Q14: Do you agree that the existing data items outlined in this section are appropriately replaced by the new reporting proposals?

Respondents agreed that the data items are appropriately replaced.

We note the responses.

Currency reporting

Q15: What are your views on this revised approach to currency reporting? Do you agree that it is more risk-based and proportionate?

A large number of responses to this question were requests for clarifications. Most respondents felt that the proposals had improved and several suggested allowing for increased flexibility in reporting currencies by allowing reporting in EUR and USD. These responses stated that converting to sterling was arbitrary in many cases.

Some firms with business models that exposed them to many currencies felt that the forms did not capture all the risks associated but believed they were outliers to such a degree that changing the reporting form would be inappropriate.

Issues around reporting currencies have been addressed in changes since the CP. We agree with arguments relating to the cost benefit analysis of firms with outlying business models and will examine particular risks through supervisory qualitative reviews.

Industry response

FSA response

Deadlines for submission

Q16: What are your views on our approach to crisis times versus business-as-usual submission deadlines?

Respondents welcomed the changes, particularly moving weekly deadlines from Sunday to Monday and taking account of the effect of bank holidays. A related point on the treatment of British summer time and how it deviated from Greenwich Mean Time (GMT) on reporting times listed in GMT was raised.

Many responses sought objective criteria for moving into crisis time and thought that some degree of prioritisation of data should take place at crisis time to facilitate fast collection. Many responses expressed concern over the accuracy of some of the figures that would be submitted when crisis time deadlines were in effect.

We note the comments. Due to the many types of crisis that could require instituting crisis-time reporting and the unpredictability of such events, it is not possible to provide meaningful criteria.

Legal entity basis for reporting

Q17: Do you agree with our individualised approach to the legal entity basis for reporting?

The majority of respondents agreed with the individualised approach. One respondent suggested a group-based view was more appropriate.

We note the feedback. We have since amended the entity basis for reporting to reduce the overall reporting burden.

Q18: What are your views on our proposals on the legal entity basis for reporting?

Some respondents were in favour of our proposals on the legal entity basis for reporting. A smaller number were opposed. One respondent felt that a purely legal entity basis for reporting risked missing relationships, such as that of a much smaller group entity, which could drain liquidity.

Our proposals in this regard have changed so that we can best capture liquidity risks regarding solo entities as well as the group as a whole.

Industry response**FSA response**

Q19: What are your views on our proposals on branch reporting?

Many responses stated that it was hard to give an opinion without further data on the effects and processes of waivers and modifications. Other responses were mixed. Those with a negative view felt the proposals were too onerous.

Greater clarification of the process and effects of waivers and modifications has been provided in the P S and on our website.

CP09/13 Chapter 5 Reporting for simpler firms**Industry response****FSA response****Reporting requirements**

Q20: What are your views on our proposed reporting frequency for simpler firms? Is a monthly reporting frequency, which switches to daily under the circumstances described above, preferable and less costly to firms than daily reporting as a matter of routine?

Responses were in favour of not reporting on a daily basis as a matter of routine. Monthly reporting was deemed less onerous. However, one response indicated that the cost differences between reporting monthly under business-as-usual, but having the ability to produce daily at all times, were not significant due to the need to build systems that were able to work at the highest frequency, even if not used.

We have amended the final regime so that the stressed time reporting frequency for low-frequency reporting firms (including simplified ILAS firms) is now weekly, not daily for FSA047 and FSA048.

Q21: If you disagree, what would you propose to capture the heterogeneous and fast-moving nature of liquidity risk?

Respondents suggested using a subset of the data items proposed, concentrating upon the core information, for instance reporting firm's estimated mismatch position within eight days and within one month. One response suggested that during crisis times we should request firms' internal management information on a random basis, depending upon the type of situation faced, rather than using a standardised form.

Our regime is designed to collect sufficient data at a sufficient frequency to protect our statutory objectives – this requires a certain level of granularity in liquidity returns. Due to the different natures of liquidity stress events we cannot agree an appropriate subset of crisis data ahead of time. The data we need in a crisis will vary by firm and by stress event. Therefore, firms need to be in a position to produce all of the data daily. Also, standardisation of the data is imperative for us to conduct our in-house analysis. Firms' internal MI would not be fit for that purpose.

Industry response

FSA response

Q22: Do you agree with our proposals of not requiring simpler firms to submit the daily flow of a data item (FSA047)?

All respondents agreed with the proposal not to require simpler firms to submit the daily flow data item.

We have changed our proposal now so that simple ILAS firms also have to submit daily flows. This is because we need to collect daily flows from simplified firms to monitor their compliance with our standardised buffer ratio. Since firms will have to conduct this analysis for the same purpose, the cost of submitting this data to us should be minimal.

Q23: Do you agree that the proposed data items adequately cover the liquidity risks of firms that fall within the scope of our standardised buffer ratio?

Responses did not directly address the above question. All comments focused on what data could be reduced and a desire for us to give more information on the intended uses of the data.

As stated elsewhere, we are satisfied with the scope of the data collection outlined here. Where possible we have amended and reduced the amount of data we collect.

Q24: If you disagree, which other data items would improve our understanding of simpler firms' liquidity risks, without being overly onerous for such firms to produce?

Respondents wanted more information on how the data would be used to be able to suggest changes. One respondent felt there should be more usage of firms' existing management information rather than regulatory returns.

Management information is a useful tool; however, we require certain information for our analysis that is not always available from such sources. Standardised definitions are also essential for benchmarking and market-wide analysis.

Q25: What are your views on our proposed submission deadlines?

All responses welcomed the end of proposals for Sunday deadlines. Repeated references were made to the need for the returns to be allowed on a 'best efforts' basis, rather than with the accuracy required of traditional prudential returns. This was felt to be a particular problem for smaller firms due to their senior management's involvement in preparing the return, among other duties. One respondent argued that data relating to providing a market-wide view was collected too frequently for any benefits that would be derived from it.

We will expect liquidity returns to be completed at the same level of accuracy as any other prudential regulatory returns. We have amended submission deadlines and stressed time-reporting frequencies for certain forms to make this more achievable.

CP09/13 Chapter 6 Waivers and modifications

Industry response

FSA response

Impact of waivers/modifications on reporting

Q26: What are your views on our proposals on waivers/modifications of our reporting requirements?

Many respondents suggested areas for clarification. They agreed with the proposals inasmuch as they facilitated a whole-firm analysis of liquidity risk. A branch stated that it might prove hard to convince foreign parents to provide the requisite whole-firm information. This would be exacerbated if UK banks were not similarly visible to foreign regulators. A respondent suggested that allowing one year for the waiver process would be in accord with the approach adopted for Basel II implementation in the UK.

We have given further details of the waivers and modifications process and its impact on reporting frequencies, which should address requests for clarification. Whole-firm reporting will only ever be required at a much reduced level of granularity and frequency. The transitional measures for the new regime are phased-in in an appropriately risk-based manner and have been further extended.

We would expect to cooperate with requests for information on UK firms from foreign regulators that are similar to those we will ask.

Q27: What are your views on our proposals relating specifically to branches of EEA and non-EEA firms?

A response indicated that the policy appeared to be designed for a large bank with headquarters in the UK and not take into account the difficulties that would arise for an international bank with a branch in the UK, particularly when most of these branches pursued very simple activities. Many responses stated that further details were needed before a fuller response could be given.

The regime is highly risk sensitive and differs on a number of key factors, with non-systemic foreign branches fulfilling several criteria that, through waivers, will ensure the requirements are proportionate to the risks.

CP09/13 Chapter 7 Cost benefit analysis (CBA)

Industry response

FSA response

Benefits

Q28: What are your views on our assessment of the benefit of the proposed liquidity reporting regime?

Respondents largely agreed with our assessment of the benefits, with larger UK banks being particularly in agreement. Some smaller firms did not recognise the benefits we listed in CP09/13.

We have noted the responses.

Costs

Q29: Are the cost figures described above a reasonable broad estimate of your firm's likely incremental reporting costs resulting directly from our proposed reporting regime? If not, please provide us with your own cost estimates.

Responses strongly disagreed with the cost estimates but also stated that it was hard to give an estimate until the final proposals were unveiled. Firms asserted that the main drivers of costs were the extent of the data items required, the degree of solo reporting and the timelines imposed.

UK banks strongly disagreed with the estimates but did not provide any of their own.

Building societies were particularly in disagreement with the costs presented. Several respondents estimated that the costs would be approximately four times higher than those given.

One full-scope BIPRU investment firm gave an estimate that was twice as high on initial costs and 30% higher on ongoing costs.

Another full-scope BIPRU investment firm estimated that initial costs would be approximately 25% higher, but that ongoing costs would be half of our estimate.

No branches were able to provide an estimate.

Limited licence BIPRU investment firms disagreed with our estimate of negligible costs, envisaging that additional follow-up queries could lead to extra costs.

Concerns were raised around the costs associated with data fields relating to Financial Services Compensation Scheme (FSCS) coverage.

The high variance in the estimation of costs is to be expected, with costs within regulatory categories differing markedly due to the idiosyncrasies of firms and differing expectations about the scope of the changes required. We have since reduced the overall reporting burden and have also spoken to several software vendors who have confirmed that our original cost estimates were largely accurate.

Industry response**FSA response**

Q30: Do the cost estimates as described above represent your firm's likely costs of submitting a complex waiver application? If not, could you please provide us with your own cost estimates?

Respondents felt there was too much uncertainty surrounding the waivers and modifications system for an accurate assessment to be given. Some suggested our estimates were reasonable, given the uncertainty, whereas the only responses that attempted quantification stated that a reasonably complex entity would spend £1.7m in 2010.

We note the responses.

Q31: Please provide us with any further information on the expected incremental compliance cost of our liquidity reporting proposals.

No attempts at quantification were provided. Respondents felt that diverting resources from strategic programmes and the ongoing review of reports would be the largest incremental costs.

We note the responses.

CP09/13 Chapter 8 Compatibility statement with our objectives and the principles of good regulation

Industry response**FSA response**

Q32: Do you agree that the proposed reporting requirements are compatible with our statutory objectives and principles of good regulation?

Respondents were concerned that two elements of good regulation were not being reflected. The first was that the regime was not sufficiently proportionate. Specifically, respondents felt that the reporting requirements and the requirements for small firms and basic business models were disproportionate. The second concern was that the regime did not recognise sufficiently the international character of financial services. In particular, some respondents felt it was important that reporting requirements should be agreed at an international level only.

The changes that have been made to the original proposals should address some of the concerns over the proportionality of the reporting requirements. Changes to the regulatory boundaries and requirements for smaller firms will also increase the proportionality of the regime. We are fully aware of the international character of financial services. Our rationale for adopting a regime before full international agreement has been explained in Chapter 1 of the PS.

3 Detailed feedback – CP09/14, Strengthening liquidity standards 3: Liquidity transitional measures

CP09/14 Chapter 2 Implementation of the FSA's new liquidity regime

Industry response	FSA response
<i>Q1: Do you agree with our proposal to provide transitional arrangements on a phased basis, differentiated by class of firm and type of requirement? If not, how could we amend it?</i>	
<p>Respondents generally welcomed, agreed or broadly agreed with the proposal for a phased implementation by class of firm and type of requirement.</p> <p>Some respondents thought that, subject to confirmation of the process and timeline for waivers and modifications, the timelines were achievable. However, others said that the timeline was unrealistic and unreasonable, proposing that there should be time between the publication of the Policy Statement and the start of the new liquidity regime.</p> <p>A number of respondents said it was difficult to fully assess the proposal, as the final details of the regime (for example, the waiver and modification process) were not known at the time of the CP09/14 consultation.</p>	<p>Our final policy provides a phased implementation by class of firm and type of requirement.</p> <p>We will present the new policy at a conference to be held on 9 October – the event will be aimed at the senior management of all affected firms. We will host a briefing event for foreign branches on 2 November. In addition, we will participate in a number of conferences hosted by trade bodies, and provide a range of liquidity-related materials on our website, updated to reflect the final policy for liquidity transitional measures.</p> <p>We note respondents' requests for more time to prepare for the new liquidity regime. However, we continue to believe that an early commencement of the regime is appropriate. Elements of our transitional timetable have been extended from the original proposals in CP09/14.</p> <p>Chapter 11 of the Policy Statement provides an overview of our final policy for the liquidity transitional measures, and a timeline for the submitting and processing liquidity modification applications.</p>

Industry response

FSA response

Q2: Do you agree with our proposals to defer implementation of our proposed self-sufficiency requirements for different classes of firms and to agree with each firm a 'window of time' to apply for a waiver?

All respondents agreed with the concept of deferring the self-sufficiency requirement.

Respondents wanted more information about the waiver and modification process, a timeline that set out when firms could apply for waivers and modifications, and clarification on what would happen if a firm's waiver or modification application were rejected. They reiterated the importance of receiving waiver and modification decisions early to ensure that their IS and resource plans would meet the requirements for compliance.

A number of respondents said that groups should be able to submit one set of waiver or modification applications for all group members at the same time to facilitate a more coordinated approach to implementation.

Some respondents were concerned that a delay in obtaining information from a firm's parent or another regulator may impact the firm's ability to obtain a waiver or modification.

We note the comments. We will continue with this approach in our final policy.

As noted in response to Q1, we have deferred the start dates for the quantitative and reporting requirements from those we consulted on.

Chapter 11 of the Policy Statement provides an overview of our final policy for the liquidity transitional measures and a timeline for submitting and processing liquidity modification applications. Our website materials reflect the final policy for liquidity transitional measures.

In Chapter 11 we note that we are willing to process the application from firms that are members of a group as a 'set' of applications. The firms' applications should all be submitted to us by the earliest relevant date noted on the modification application timeline.

Chapter 11 also outlines that if a firm does not obtain a waiver or modification for which it applies it will need to revise its approach to comply with the BIPRU 12 requirements that will apply to it. If a firm is unable to comply with the requirements, we will need to assess the circumstances of the case and determine the appropriate regulatory response.

Industry response**FSA response**

Q3: How long do you consider you would need after the waiver decision has been made to prepare for compliance with the new regime?

Most respondents said there should be time between waivers and modification decisions and the start of the new requirements. Some said that this should vary according to the conditions relating to the modification, particularly where firms would be required to make substantial changes to their approach or where a modification application was rejected. They also said that potential interactions with home supervisors would need to be factored into the modification timeline.

Reporting requirements were noted as particularly complex, as the preparation and approach could not be finalised without knowing the nature of the modification that would be available to a firm.

Some respondents said that we should be alert to the needs of smaller, less-complex firms where individuals have multiple roles.

Chapter 11 of the Policy Statement provides an overview of our final policy for liquidity transitional measures and a timeline for submitting and processing liquidity modification applications.

The timeline provides each class of firm with a short period of time to prepare, between the date when they will receive a waiver or modification decision, and switch-on of the quantitative requirements. If a firm is unable to comply with the requirement, we would assess their circumstances and decide on the appropriate regulatory response.

Chapter 10 of the Policy Statement outlines our final policy for regulatory reporting requirements.

Industry response

FSA response

Q4: What are your views on our proposed supervisory approach through the economic recovery?

Respondents were supportive of an approach that looked to the medium to long-term horizon.

Respondents were generally supportive of the range of factors noted in CP09/14 as relevant to our consideration of Individual Liquidity Guidance (ILG). While some respondents were supportive of a gradual build-up of minimum liquidity levels over a number of years, they said that the substantial resource implications would still impact firms.

Some respondents commented that the UK approach should be alert to approaches in other jurisdictions and that it would be beneficial to establish internationally consistent standards and aligned implementation timelines.

Some respondents sought more clarity about the nature and setting of ILG. A number of respondents commented on the size and composition of the liquid assets buffer, and how this might be built up over time. Other respondents questioned how firms would progress towards certain requirements within the ILAS regime.

Chapter 6 of the Policy Statement discusses matters relevant to ILG. Chapter 5 discusses our final policy on systems and control requirements.

Chapter 1 of the Policy Statement outlines that we strongly support the international liquidity-related initiatives which are currently in progress. The structure of our new regime is sufficiently flexible to allow us to amend it through time to reflect new international standards, subject to consultation.

Chapters 6 and 8 of the Policy Statement comment on our final policy for ILAS and the liquid assets buffer respectively.

CP09/14 Chapter 3 Cost benefit analysis (CBA)

Industry response

FSA response

Q5: Do you agree with the approach to estimate current short-term Sterling treasury bills held by firms?

Where the majority of respondents broadly agreed that the approach used could be relatively reasonable, some believed that the approach could over-estimate the short-term Treasury bill holdings of simplified ILAS building societies, as some could have no treasury bill holdings.

Other respondents believed that diversity in the building society sector was not adequately addressed.

We have widened our definition of liquid assets for simplified ILAS firms. Now, all assets defined as liquid for ILAS purposes (and investments in certain Qualifying Money Market Funds) will be eligible for the simplified ILAS buffer. Additionally, The Bank of England has announced that all firms eligible in principle to pay Cash Ratio Deposits, whether or not their balance sheets are in practice of a size that requires them to do so, will in future be eligible to apply for access to the Bank's Sterling Monetary Framework facilities, including a reserves account.

The liquid assets definition includes gilts, so the approach to assessing the cost to firms in CP09/14 is more relevant.

The CBA in the Policy Statement re-assesses the impact of the regime on a wider range of simplified ILAS firms.

Q6: Do you consider the estimated ratio 3% reasonable?

The vast majority of respondents believed that the estimate was too high, as some simplified ILAS firms do not hold gilts.

The CBA in the Policy Statement re-assesses the impact of the regime on a wider range of simplified ILAS firms.

Q7: Do you agree with the transitional regime as such will not impose significant additional administrative and reporting cost on simplified banks and building societies?

Respondents generally thought that the transition would impose additional costs, particularly relating to staff, systems and training. However, it was noted that the cost would be less than if there were no transition, and that the cost would vary from firm to firm.

We note the industry response to this question.

Industry response

FSA response

Q8: Do you believe that simplified banks and building societies incur additional transaction cost when accessing the government bond market?

Some respondents said that firms that had never held bonds (and had no intention of doing so in their usual course of business) would need to set up an operation to hold bonds, potentially at a significant cost. However, they said that this cost would depend on the firm's current treasury arrangements.

One respondent said that the government bond markets that firms would need to access to meet liquidity buffer requirements are the cheapest, most liquid and transparent markets of any kind anywhere. They said that by holding the bond in the available-for-sale book (or in the future on an amortised cost basis) rather than in the trading book, existing accounting and trading systems and procedures should be able to cope.

As mentioned in our response to question five, we have widened our definition of liquid assets for simplified ILAS firms. Now all assets defined as liquid for ILAS purposes (and investments in certain Qualifying Money Market Funds) will be eligible for the simplified ILAS buffer. Additionally, The Bank of England has announced that all firms eligible in principle to pay Cash Ratio Deposits, whether or not their balance sheets are in practice of a size that requires them to do so, will in future be eligible to apply for access to the Bank's Sterling Monetary Framework facilities, including a reserves account. This was primarily to reduce the compliance burden on simpler firms that do not have repo capability.

Q9: Do you agree with the costing methodology for the simplified regime transitional arrangements?

Respondents said that they believed the methodology overestimated the Treasury bill holdings of firms, so would probably underestimate the cost of transitioning to the regime.

The CBA in the Policy Statement re-assesses the impact of the regime on a wider range of simplified ILAS firms.

Q10: Do you agree with the cost estimates for the simplified regime transitional arrangements?

Respondents said that the estimates did not correlate with the building societies' estimates, and that the assumptions used did not accurately reflect the true cost.

The CBA in the Policy Statement re-assesses the impact of the regime on a wider range of simplified ILAS firms.

Industry response**FSA response**

Reduction in probability of firm's failure and in expected costs of systemic crises

Q11: Do you agree that the proposals will result in the benefits described in this section?

Generally, respondents thought that the proposals could result in the benefits described in the CBA. However, one believed that there was little evidence of liquidity stress in the building society sector during the recent economic crisis. Another respondent underlined the importance of a phased approach to delivering the policy.

We note the industry response to this question.

CP09/14 Annex 1 Transitional measures for UK incorporated banks currently using the Sterling Stock Liquidity approach**Industry response****FSA response**

Q13: Do you agree with the proposed approach for systems and control requirements?

Respondents sought clarity on the systems and control requirements switch-on date, proposing that this should be after 1 January 2010. However, others agreed with the proposal to switch on the system and controls requirement in late 2009. A number of respondents said that more time was needed to prepare for the 'intra-day' element of the requirements.

Respondents asked for more guidance on the waiver and modification process for the systems and control requirements.

We will not provide transitional measure for the systems and control requirements. Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Industry response**FSA response**

Q14: Do you agree with the proposed approach for quantitative requirements?

Respondents supported the proposal to defer the quantitative requirements switch-on date. A number proposed that the switch-on should be deferred until 1 January 2011, because of the effort required to improve their ability to comply with the new requirements.

Some respondents asked for more clarity about the nature and setting of ILG. A number of respondents commented on the nature and composition of the liquidity buffer and how this might be built up over time. Other respondents questioned how firms would progress towards certain requirements within the ILAS regime.

As noted in our response to Q1, we have deferred the switch-on dates for the quantitative requirements from those proposed in CP08/22.

Chapter 11 of the Policy Statement provides an overview of our final policy for the liquidity transitional measures, and a timeline for submitting and processing liquidity waiver and modification applications. Our website materials have been updated to reflect the final policy for liquidity transitional measures.

Chapters 6 and 8 of the Policy Statement comment on our final policy for ILAS and the liquid assets buffer respectively.

Q15: Do you agree with the proposed supervisory approach?

Some respondents broadly agreed with the approach. Other respondents said that it was difficult to comment.

Most respondents asked for more detail about ILG. Some respondents asked for more clarity about the nature and setting of ILG. Some respondents raised questions about the liquidity buffer.

Chapters 6 and 8 of the Policy Statement comment on our final policy for ILAS and the liquid assets buffer respectively.

Q16: Do you agree with the proposed approach for regulatory reporting requirements?

Some respondents welcomed the deferral in introducing the reporting requirements. It was noted that significant lead times were needed to implement the reporting requirements.

Most respondents commented that it was difficult to comment without seeing the final reporting requirements.

Chapter 10 of the Policy Statement outlines our final policy for regulatory reporting.

CP09/14 Annex 2 Transitional measures for UK incorporated banks currently using the Mismatch Liquidity approach

Industry response

FSA response

Q17: Do you agree with the proposed requirements for systems and control requirements?

Some respondents agreed with the approach, saying that the requirements reflected good practice already applied by larger firms. One respondent stated a preference for applying the requirements at a group rather than on a solo level. It was noted that smaller firms may need to make significant effort to create the required risk management processes.

Respondents asked us to clarify the switch-on date for the systems and control requirements. It was proposed the requirements should not switch on until 1 January 2010 at the earliest.

We do not intend to provide transitional measures for the systems and control requirements.

Chapters 5 and 11 of the Policy Statement set out our final policy for systems and controls and the transition to the new requirements respectively.

Q18: Do you agree with the proposed approach for quantitative requirements?

Respondents supported the proposal to defer the quantitative requirements switch-on date. A number proposed that the switch-on should be deferred until 1 January 2011, because of the effort required to improve their ability to comply with the new requirements.

Some respondents asked for more clarity on the waiver and modification process and requirements, including a timeline setting out when they would be able to apply for modifications. One respondent said that ILG should not be issued until waiver or modification decisions had been issued for other group members. Another stated a preference for applying the requirements at a group rather than solo level.

As noted in our response to Q1, we have deferred the start dates for the quantitative and reporting requirements from those on which we consulted.

Our responses to Q2 and Q3 comment on waiver and modification issues.

Chapter 6 of the Policy Statement comments on our final policy for ILAS. Chapter 11 provides an overview of our final policy for the liquidity transitional measures, and a timeline for submitting and processing liquidity modification applications.

Our website materials have been updated to reflect the final policy for liquidity transitional measures.

Industry response**FSA response**

Q19: Do you agree with the proposed supervisory approach?

Generally, respondents asked for more information on ILG. One said that the final liquidity guidance should be co-ordinated with the home regulator and agreed by the FSA. In relation to ILAS and ILG, respondents said that very little information had been provided on the liquidity buffer.

A number of respondents agreed with the proposed approach. One respondent said that they should be permitted to submit one waiver or modification application for all group entities.

Chapters 6 and 8 of the Policy Statement comment on our final policy for ILAS and the liquid assets buffer respectively.

Our responses to Q2 and Q3 comment on waiver and modification issues.

Q20: Do you agree with the proposed approach for regulatory reporting requirements?

While the deferral was welcomed, respondents said that it was difficult to comment without knowing the detail of the final reporting regime. The availability and nature of waivers and modifications was also considered an important element in firms' considerations.

One respondent said that they should be permitted to submit one waiver or modification application for all group entities.

As noted in our response to Q1, we have deferred the start dates for the quantitative and reporting requirements from those on which we consulted.

Our responses to Q2 and Q3 comment on waiver and modification issues.

Chapter 6 of the Policy Statement comments on our final policy for ILAS. Chapter 11 provides an overview of our final policy for the liquidity transitional measures, and a timeline for submitting and processing liquidity modification applications.

Our website materials have been updated to reflect the final policy for liquidity transitional measures.

CP09/14 Annex 3 Transitional measures for UK incorporated banks that select simplified ILAS

Industry response

FSA response

Q21: Do you agree with the proposed requirements for systems and control requirements?

Some respondents agreed with the approach, saying that the requirements reflected good practice already applied by larger firms. One respondent stated a preference for applying the requirements at a group rather than on a solo level. It was noted that smaller firms may need to make significant effort to create the required risk management processes.

Respondents asked us to clarify the switch-on date for the systems and control requirements. It was proposed the requirements should not switch on until 1 January 2010 at the earliest.

We do not intend to provide transitional measures for the systems and control requirements.

Chapters 5 and 11 of the Policy Statement set out our final policy for systems and controls and the transition to the new requirements respectively.

Q22: Do you agree with the proposed approach for quantitative requirements?

Respondents supported deferring the requirements.

As noted in response to Q1, we have deferred the switch-on dates for the quantitative requirements for those on which we consulted in CP09/14. Chapter 11 of the Policy Statement provides more detail.

Q23: Do you agree with the proposed supervisory approach?

The proposal was supported.

We note the industry response to this question.

Q24: Do you agree with the proposed approach for regulatory reporting requirements?

While respondents welcomed the deferral they said that it was difficult to comment without knowing the detail of the final reporting regime.

Chapter 10 of the Policy Statement provides an overview of our final policy for reporting.

CP09/14 Annex 4 Transitional measures for building societies not within the simplified ILAS regime

Industry response

FSA response

Q25: Do you agree with the proposed requirements for systems and control requirements?

Respondents asked us to clarify the switch-on dates for the systems and control requirements. One respondent thought the proposed timeline was achievable. Alternative switch-on dates proposed were after 1 January 2010 and mid-2010. It was said that there were no material deficiencies in the current supervision of building society to warrant hurried implementation.

We do not intend to provide a transitional measure for the systems and control requirements for this class of firm. Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Q26: Do you agree with the proposed approach for quantitative requirements?

Respondents supported the proposal to phase-in the quantitative requirements. Some respondents said they needed the final policy requirements – including the liquid assets buffer – before being able to give a final view.

As discussed in our response to Q1, in our final policy we have deferred the switch-on dates for the quantitative and reporting requirements from those on which we consulted on.

Chapter 8 of the Policy Statement comments on our final policy for the liquid assets buffer.

Chapter 11 of the Policy Statement provides more detail.

Q27: Do you agree with the proposed supervisory approach?

Respondents generally supported the proposal, including the economic pathway approach. Low-level ILG was also considered a suitable vehicle.

Chapter 6 of the Policy Statement comments on our final policy for ILAS.

Q28: Do you agree with the proposed approach to regulatory reporting requirements?

Respondents agreed with the proposal to defer the new reporting requirements, but thought this should be deferred further. Some respondents commented that, although cumbersome, the current reporting arrangements were working well. They said that these should continue and the reporting requirements deferred until conditions normalised and the reporting proposals were developed further.

Chapters 10 and 11 of the Policy Statement note our final policy for regulatory reporting requirements and their transitional measures respectively.

CP09/14 Annex 5 Transitional measures for building societies within the simplified ILAS regime

Industry response

FSA response

Q29: Do you agree with the proposed requirements for systems and controls requirements?

The response was mixed. Some respondents asked us to clarify the switch-on date for the systems and control requirements. It was proposed that the requirements should not switch on until after 1 January 2010 or mid-2010.

It was said that there was no pressing need to impose new systems and control requirements on building societies.

We will not provide transitional measure for the systems and control requirements. Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Q30: Do you agree with the proposed approach for quantitative requirements?

Respondents supported the proposal. One respondent sought clarification on the simplified regime's liquid assets buffer.

Chapter 8 of the Policy Statement comments on our final policy for the liquid assets buffer. Chapter 11 of the Policy Statement sets out our final policy for switching on the new regime.

Q31: Do you agree with the proposed supervisory approach?

Respondents said that while ILG would not be issued to simplified firms, providing guidance as part of the normal supervisory engagement would be appropriate.

We note the industry response to this question.

Q32 Do you agree with the proposed approach to regulatory reporting requirements?

Respondents agreed with the concept of deferring the new reporting requirements, but thought that it should be deferred further. Some respondents commented that, although cumbersome, the current reporting arrangements were working well. They said that these should continue and the reporting requirements be deferred until conditions normalised, and the reporting proposals were developed further.

Chapters 10 and 11 of the Policy Statement note our final policy on the regulatory reporting requirements and their transitional measures respectively.

CP09/14 Annex 6 Transitional measures for UK branches of overseas firms (without a GLC)

Industry response

FSA response

Q33: Do you agree with the proposed requirements for systems and controls requirements?

Some respondents said that the majority of switch-on dates were unfair and illogical, and that all switch-on dates should be the same as those proposed for branches with GLCs (Annex 7). It was also said that branches without a GLC would have to conform to a more demanding set of requirements at an earlier stage. However, one respondent thought the proposed timeline was achievable.

Respondents asked us to clarify the switch-on date for the systems and control requirements. Some respondents thought these should be deferred until after 1 January 2010.

Some respondents asked for more clarity on the waiver and modification process and requirements, including a timeline setting out when they would be able to apply for modifications. Some concern was expressed that firms may not be given the waiver or modification they seek, and would need to amend arrangements to comply with the new requirements at short notice. They were also concerned that delays in information sharing between regulators could potentially impact firms' compliance.

We will not provide transitional measure for the systems and control requirements.

In exceptional cases we provide transitional measures to branches with a GLC, as without them they would face becoming subject to all elements of the new liquidity regime from its commencement, including the self-sufficiency requirement. No other class of firm would be impacted in this way.

Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Our response to Q3 addresses queries regarding the waiver and modification process and delays in obtaining information.

Industry response

FSA response

Q34: Do you agree with the proposed approach for quantitative requirements?

There was general support for the proposal to defer the switch-on of the requirements – 1 January 2011 was proposed as an alternative start date.

One respondent said that they should be permitted to submit one waiver or modification application for all group entities.

Respondents were also concerned that delays in information sharing between regulators in different jurisdictions could potentially impact on a firm's ability to obtain a modification.

We do not intend to provide a transitional measure for the systems and control requirements for this class of firm.

Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Q35: Do you agree with the proposed supervisory approach?

Some respondents supported the proposed approach. However, others raised concerns about the equivalency assessment.

Chapter 8 of the Policy Statement comments on the final policy for intra-group modifications.

Q36: Do you agree with the proposed approach for regulatory reporting requirements?

There was general support for our proposal to defer the requirements. One respondent proposed that all elements of the new regime should switch-on from one date. Another said that they should be permitted to submit one waiver or modification application for all group entities.

Respondents were also concerned that delays in information sharing between regulators in different jurisdictions could potentially impact on a firm's ability to obtain a modification.

Respondents asked us to clarify the detail of the final reporting regime. Some comments were made that the reporting regime was too onerous, and differed from the reporting formats used by firms.

Chapter 10 of the Policy Statement discusses our final policy for regulatory reporting.

Chapter 11 of the Policy Statement notes the transitional measures for regulatory reporting requirements.

Our responses to Q2 and Q3 in CP09/14 comment on waiver and modification issues.

CP09/14 Annex 7 Transitional measures for UK branches of overseas firms (with a GLC)

Industry response

FSA response

Q37: Do you agree with the proposed requirements for systems and controls requirements?

There was general support for the proposal to defer the requirements. Some respondents proposed 1 January 2011 as an alternative start date.

Respondents asked for more guidance on the waiver and modification process for the systems and control requirements. However, they were also concerned that delays in information sharing between regulators in different jurisdictions could impact on firms' ability to obtain a modification.

As discussed in Chapter 11 of the Policy Statement, we will not provide transitional measure for the systems and control requirements. Chapter 11 also sets out our final policy for switching on the new requirements.

Our response to Q3 in CP09/14 provides our response to the waiver and modification process question.

During the transitional period provided by BIPRU CP26, the BIPRU12 quantitative requirements (which include BIPRU12.8) are switched off.

Q38: Do you agree with the proposed approach for quantitative requirements?

There was general support for the proposal to defer the requirements. Some respondents proposed 1 January 2011 as an alternative start date.

Some respondents asked for more clarity on the waiver and modification process and requirements, including a timeline setting out when they would be able to apply for modifications. Some concern was expressed that firms may not be given the waiver or modification they seek, and would need to amend arrangements to comply with the new requirements at short notice. Respondents were also concerned that delays in information sharing between regulators in different jurisdictions could potentially impact on a firm's ability to obtain a modification.

Chapter 11 of the Policy Statement sets out our final policy for switching on the requirements.

Our responses to Q2 and Q3 in CP09/14 comment on waiver and modification issues, and cases where a firm is unable to comply with the requirements.

Q39: Do you agree with the proposed supervisory approach?

The approach was supported.

Some concern was expressed that firms may not be given the waiver or modification they seek, and would need to amend arrangements to comply with the new requirements at short notice. Respondents were also concerned that delays in information sharing between regulators could also potentially impact on firms' compliance.

Our responses to Q2 and Q3 comment on waiver and modification issues.

Industry response**FSA response**

Q40: Do you agree with the proposed approach for regulatory reporting requirements?

There was general support for the proposal to defer the requirements.

Respondents sought more detail about the final regime. Reference was made to details of reporting matters discussed at the Liquidity Risk Standing Group 25 June meeting, and that these were not discussed in CP09/14.

Chapter 10 of the Policy Statement discusses our final policy for regulatory reporting.

Chapter 11 of the Policy Statement outlines the transitional arrangements for the regulatory reporting requirements.

CP09/14 Annex 8 Transitional measures for full scope BIPRU investment firms

Industry response**FSA response**

Q41: Do you agree with the proposed requirements for systems and controls requirements?

The response was mixed. Some supported the proposal. However, others believed they were potentially inappropriate for this class of firm.

Some respondents sought clarity on the switch-on date for the systems and control requirements. It was proposed that the requirements should not switch on until at least 1 January 2010 or mid -2010.

As noted in Chapter 11 of the Policy Statement, we will not provide transitional measure for the systems and control requirements.

Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively. .

Chapter 12 of the Policy Statement summarises how the final liquidity policy applies to investment firms.

Q42: Do you agree with the proposed approach for quantitative requirements?

There was general support for the proposal to defer the requirements. 1 January 2011 was proposed as an alternative start date.

One respondent said that they should be permitted to submit one waiver or modification application for all group entities. Some respondents asked for more information about the waiver and modification process.

Some respondents questioned the appropriateness of the requirements for this class of firm.

Chapter 11 of the Policy Statement sets out our final policy for switching on the new regime.

Our responses to Q2 and Q3 in CP09/14 comments on waiver and modification issues, including processing applications from firms that are members of a group.

Our response to Q4 comments on appropriateness and proportionality, and refers to Chapters 5 and 12 of the Policy Statement.

Industry response**FSA response**

Q43: Do you agree with the proposed supervisory approach?

The responses were mixed. Some respondents asked for more information about how the quantitative requirements would change over time.

We note the industry response to this question.
Chapter 1 of the Policy Statement comments on the phasing-in of requirements.

Q44: Do you agree with the proposed approach for regulatory reporting requirements?

There was general support for the proposal to defer the requirements. Respondents said it was difficult to comment without seeing the final reporting requirements. They added that they needed adequate time to build systems, and the importance of having a waiver or modification document at an early stage so that systems could be built to meet the requirements.

Chapters 10 and 11 of the Policy Statement discuss our final policy for reporting and the transitional arrangements respectively.
Our responses to Q2 and Q3 in CP09/14 comment on waiver and modification issues.

CP09/14 Annex 9 Transitional measures for non-ILAS firm

Industry response**FSA response**

Q45: Do you agree with the proposed requirements for systems and controls requirements?

The response was mixed. Some respondents sought clarity on the systems and control requirements switch-on date. It was proposed that the requirements should not commence until at least 1 January 2010 or mid-2010.

Some respondents questioned the appropriateness of the requirements for this class of firm.

There was support for the development of industry guidance.

As discussed in Chapter 11 of the Policy Statement, we will not provide transitional measures for the systems and control requirements.

Chapters 5 and 11 of the Policy Statement set out our final policy on the systems and control requirements, and the transition to the new requirements respectively.

Q46: Do you agree with the proposed approach for regulatory reporting requirements?

Respondents were generally supportive of the annual report. Some comments on the detail of the policy were noted.

Chapter 10 of the Policy Statement outlines our final policy for regulatory reporting.

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