



ILAS overview for UK branches of foreign banks

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1 Introduction

The new liquidity requirements are set out in the FSA Handbook of Rules and Guidance, Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) section 12.

A UK branch of a foreign bank without a modification waiver must comply with all aspects of the new rules.

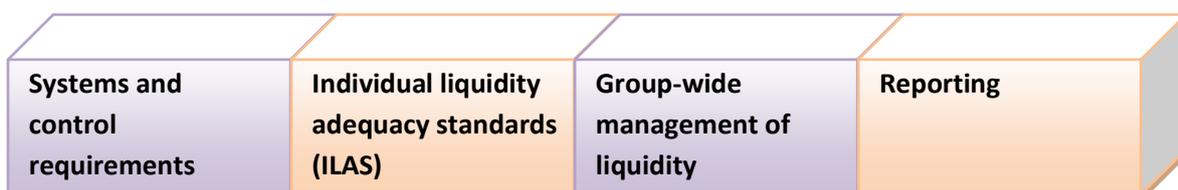
This document highlights the key aspects of the new policy for UK-based branches of foreign banks without an intra-group or whole-firm waiver.

2 Overview of the new liquidity framework

The new liquidity framework is driven by the overarching principle outlined in [BIPRU 12.2.1R](#) –

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

The FSA has followed a principle-based-approach for the overall framework while using a more prescriptive approach for reporting and quantitative measures.



Systems and controls requirements (BIPRU 12.3 , 12.4)	
Overarching principles of self-sufficiency and adequacy of liquidity resources fulfilled by developing appropriate internal policies, systems and controls	
Building Blocks <ul style="list-style-type: none"> • Governing body & senior management oversight • Managing liquidity across legal entities, business lines & currencies (identify, measure, monitor and control) • Pricing liquidity risk • Funding diversification & market access • Intra-day liquidity risk management • Stress testing • Management of collateral positions • Contingency funding plans 	Deliverables <p>Develop a Liquidity Risk Management Framework which includes the following :-</p> <ol style="list-style-type: none"> 1) Liquidity risk tolerance/appetite statement (including risk limits and early warning indicators) 2) Liquidity management policy¹ 3) Stress testing guidance 4) Contingency funding plan

¹ The branch would already have a documented Liquidity management policy as per IPRU 3.4.3 R

Individual liquidity adequacy standards (BIPRU 12.5, 12.7)

Quantification of liquid assets required to survive stress scenarios considering the 10 risk drivers

Building Blocks	Deliverables
Idiosyncratic, market wide and combination stress tests across the following liquidity risk drivers 1) Wholesale funding 2) Retail funding 3) Intra-day 4) Intra-group 5) Cross-currency 6) Off-balance sheet 7) Franchise viability 8) Marketable assets 9) Non-marketable assets 10) Funding concentration	Stress test results Individual Liquidity Adequacy Assessment (ILAA) document Liquidity buffer quantitative measures

Group-wide management of liquidity (BIPRU 12.8)

Applies only to branches that have applied for intra-group or whole-firm modification

Not applicable to branches that do not qualify for a modification	
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Reporting (SUP 16)

Standardized, granular, contractual and frequent reporting to enable FSA to apply advanced business intelligence capabilities for supervisory benchmarking

Building Blocks	Deliverables
Cash flow mismatches	FSA047 - Daily Flows FSA048 – Enhanced Mismatch Report (EMR)
Liquid assets/currency	FSA050 – Liquidity Buffer FSA054 - Currency Analysis: Percentages of assets/ liabilities in each currency
Funding sources	FSA051 – Funding Concentration by counterparty FSA053 – Retail & Corporate Funding
Leading Indicators	FSA052 – Pricing data - Wholesale Liabilities: Price/volume of funding by type / currency FSA055 - Systems and Controls Questionnaire for non-ILAS firms

3 Scope

The table below outlines the scope of the new regime for branches of foreign banks.

	Self-sufficiency & adequacy of liquidity resources (BIPRU 12.1, 12.2)	Systems & controls (BIPRU 12.3, 12.4)	ILAS (BIPRU 12.5, 12.7)	Simplified ILAS (BIPRU 12.6, 12.7)	Regular frequency quantitative reporting (SUP 16)	Low frequency quantitative reporting (SUP 16) ²
Branches without modification waiver	✓	✓	✓	X	✓ (>1bn)	✓ (<1bn)
Branches with modification waiver***	✓	X	X	X	X	✓

*** In case where the whole-firm modification or intra-group modification waiver applications are approved, the responsibility of ensuring adequate liquidity for the branch rests with the parent bank or other group entity.

4 Timetable

The FSA has provided a detailed flight-path and transitional period (BIPRU TP 26) based on the type of firm and existing liquidity reporting method as outlined in the table below:-

Class of firm	Switch on date for systems & controls	Switch on date for quantitative requirements (ILAA and Liquidity buffer)	Switch on date for reporting requirements
UK branches of foreign banks that do not hold a Global Liquidity Concession (GLC) under the current liquidity regime in IPRU Bank	1 December 2009	1 November 2010	1 November 2010
UK branches of foreign banks that hold a GLC under the current liquidity regime in IPRU Bank	1 November 2010	1 November 2010	1 November 2010

² Balance sheet under £1 bn

5 Reporting frequency and deadlines

	Reports	Report type	Frequency (deadline) ³
Branches of foreign banks without waiver	FSA047, FSA048	Cash flow mismatches	Weekly (T +1)
	FSA050, FSA051	Liquidity buffer and funding concentration	Monthly (T + 15)
	FSA052	Pricing data (wholesale)	Weekly (Tuesday)
	FSA053, FSA054	Funding & Currency analysis	Quarterly (T +15)
	FSA055	Systems and controls questioner	Annual (T +15)
	ILAA	Annual assessment approved by the governing body	Annual

Branches of foreign banks with waiver	FSA047, FSA048	Cash flow mismatches	Quarterly (at most)
	FSA050, FSA051	Liquidity buffer and funding concentration	N/A
	FSA052	Pricing data (wholesale)	N/A
	FSA053, FSA054	Funding & Currency analysis	N/A
	FSA055	Systems and controls questionnaire	N/A
	ILAA	Annual assessment approved by the governing body	N/A

6 Assessment Process

The overall liquidity assessment process is as shown below:-



³ For branches with balance sheet under £ 1bn, weekly data items FSA047, FSA048 and FSA052 are to be submitted monthly, with a 15 business day submission deadline and weekly reporting in times of a crisis.

7 Cost implications

The expected cost implications for branches of foreign banks to comply with the new liquidity regime are provided in the table below. The cost implications are based on the 'Cost benefit analysis' section of the FSA Policy Statement PS09/16 released in October 2009.

Cost factor	Description	Impact
Costs to firms of holding increased liquid assets (Cost of self-sufficiency)	The need to hold more sterling gilts could potentially reduce the revenue of the branch.	In the consultation paper CP08/22, FSA assumes that the top 10 UK banks will increase their holding of government bonds to between 6% and 10% of their total assets. ⁴
Operational liquidity reserve	The buffer to be maintained by the branch to meet its operational obligations.	FSA estimates this to be about 2% to 6% of the branch assets.
Costs due to supervisory requirements for changes in funding	Firms may be subject to costs arising from supervisors requiring increases in duration of funding and a higher proportion of retail funding.	This cost will vary based on the branch's funding profile.
Other costs to firms (IT, reporting, training etc)	The additional costs for reporting, documentation requirements, record keeping, monitoring, risk management, IT infrastructure and other administrative costs	Based on the initial consultation, FSA has provided an estimate of the average costs likely to be incurred by branches ⁵ :- Average one-off costs: £600,000 Average on-going cost (per year): £150,000 Average on-going cost (per year) stress reporting : £170,000

⁴ Based on the 2009 returns of 88 branches (without GLC) FSA estimates that 40 branches are already self-sufficient and the remaining 48 branches will incur a cost of £400 million a year

⁵ We believe that the average cost will be substantially lower for branches with assets under £1 billion. The average one-off costs for these branches will be in the range of £200,000 - £400,000 depending on the size and complexity of the business.

8 Further references

1. Presentation slides – FSA liquidity briefing for branches (Nov 2009)
http://www.fsa.gov.uk/pages/Doing/Events/pdf/liquidity_slides.pdf
2. The FSA policy document and consultation papers on liquidity
http://www.fsa.gov.uk/pages/Library/Policy/Policy/2009/09_16.shtml
3. Individual Liquidity Adequacy Assessment format
http://www.fsa.gov.uk/pubs/international/adequacy_assessment.pdf

9 Glossary of terms

BIPRU - Banks, Building Societies and Investment Firms Prudential sourcebook

CFP – Contingency Funding Plan

EMR – Enhanced Mismatch Report (FSA048)

GLC – Group Liquidity Concession (as per the existing rules)

ILAA – Individual Liquidity Adequacy Assessment

ILAS – Individual Liquidity Adequacy Standards

ILG – Individual Liquidity Guidance

IPRU – Interim Prudential Source Book (Banks)

LRM – Liquidity Risk Management

SLRP – Supervisory Liquidity Review Process