

**PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND
INVESTMENT FIRMS (LIQUIDITY STANDARDS) AMENDMENT
INSTRUMENT 2013**

Powers exercised

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

Pre-conditions to making

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

Commencement

- D. Part 1 of the Annex to this instrument comes into force on 1 January 2014.
- E. Part 2 of the Annex to this instrument comes into force on a date specified by subsequent PRA Board Instrument.

Amendments

- F. The Prudential sourcebook of Bank, Building Societies and Investment Firms (BIPRU) is amended in accordance with the Annex to this instrument.

Notes

- G. In the Annex to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

Citation

- H. This instrument may be cited as the Prudential sourcebook of Bank, Building Societies and Investment Firms (Liquidity Standards) Amendments Instrument 2013.

By order of the Board of the Prudential Regulation Authority

16 December 2013

Annex

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

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

Part 1: Comes into force on 1 January 2014.

Liquidity standards

12.1 Application

12.1.1 R Subject to *BIPRU 12.1.2R*, *BIPRU 12* applies to:

- (1) ~~a *BIPRU firm* [deleted];~~
- (1A) a *UK bank*;
- (1B) a *building society*;
- (1C) a *UK designated investment firm*;
- (2) an *incoming EEA firm* which:
 - (a) is a ~~full *BCD-CRD*~~ *credit institution*; and
 - (b) has a *branch* in the *United Kingdom*; and
- (3) a *third country BIPRU firm* which:
 - (a) ~~is bank; and [deleted]~~
 - (b) has a *branch* in the *United Kingdom*.

...

12.1.3 G ~~A *firm* that is an *exempt full scope BIPRU investment firm* is not an *HLAS BIPRU firm*. [deleted]~~

12.1.4 R (1) ~~An *exempt full scope BIPRU investment firm* is a *full scope BIPRU investment firm* that at all times has total net assets which are less than or equal to 50 million.~~

(2) ~~(In this *rule*, total net assets are the sum of a *firm's* total *trading book* assets and its total *non-trading book* assets, less the sum of its called up share capital, reserves and minority interests.~~

~~(3) (3) For the purpose of (2), the value attributed to each of the specified balance sheet items must be that which is reported to the FCA in the firm's most recent FSA001 data item. [deleted]~~

12.1.5 G ~~The effect of BIPRU 12.1.4R is therefore to require the firm to sum the values of cell entries 20A and 20B in data item FSA001 and deduct from that total the sum of the values of cell entries 42, 43 and 44 in the same data item. [deleted]~~

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12.3 Liquidity risk management

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

[Note: annex V paragraph 14 of the *Banking Consolidation Directive* article 86(1) of the *CRD*]

...

12.3.5 R ...

[Note: annex V paragraph 14a of the *Banking Consolidation Directive* article 86(2) (part) of the *CRD*]

...

12.3.7A R A firm must, taking into account the nature, scale and complexity of its activities, have liquidity risk profiles that are consistent with and not in excess of those required for a well-functioning and robust system.

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

12.3.8 R ...

[Note: annex V paragraph 14a of the *Banking Consolidation Directive* article 86(2) (part) of the *CRD*]

...

12.3.22A R ...

~~[Note: annex V paragraph 16 of the *Banking Consolidation Directive* article 86(5) of the *CRD*]~~

12.3.22B R ...

~~[Note: annex V paragraph 17 of the *Banking Consolidation Directive* article 86(6) of the *CRD*]~~

12.3.27 R ...

~~[Note: annex V paragraph 15 of the *Banking Consolidation Directive* article 86(4) of the *CRD*]~~

12.4 Stress testing and contingency funding

12.4.-2 R ...

~~[Note: annex V paragraph 18 of the *Banking Consolidation Directive* article 86(7) of the *CRD*]~~

12.4.-1 R A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review ~~regularly~~ the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, as referred to in the *EU CRR*, in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

~~[Note: annex V paragraph 19 of the *Banking Consolidation Directive* article 86(8) of the *CRD*]~~

...

12.4.5A R A *firm* must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time ~~horizons periods~~ and varying degrees of stressed conditions must be considered.

~~[Note: annex V paragraph 20 of the *Banking Consolidation Directive* article 86(9) of the *CRD*]~~

...

12.4.10 R ...

~~[Note: annex V paragraph 21 of the *Banking Consolidation Directive* article 86(10) of the *CRD*]~~

12.4.11 R ~~In order to deal with liquidity crisis, a~~ A firm must have in place ~~contingency liquidity recovery~~ plans setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to branches established in another EEA State. Those plans must be ~~regularly tested, at least annually,~~ updated on the basis of the outcome of the alternative scenarios set out in *BIPRU* 12.4.-1R, and be reported to and approved by the *firm's governing body*, so that internal policies and processes can be adjusted accordingly. A firm must take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately.

[~~Note: annex V paragraph 22 of the Banking Consolidation Directive~~ article 86(11) (part) of the CRD]

12.4.11A R For a firm that is a CRD credit institution the operational steps referred to in BIPRU 12.4.11R must include holding collateral immediately available for central bank funding. This includes holding collateral where necessary in the currency of another EEA State, or currency of a non-EEA state to which the firm has exposures, and where operationally necessary within the territory of a Host State or non-EEA state to whose currency it is exposed.

[~~Note: article 86(11) (part) of the CRD~~ article 86(11) (part) of the CRD]

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12.7 Liquid assets buffer

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12.7.4 R ...

- (1) the central government or central bank in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with ~~credit quality step~~ credit quality step 1 in the table set out in BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps) in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAIs credit assessments to credit quality steps (Long term mapping)); and

...

...

12.7.6 R ...

- (1) the central bank in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with ~~credit~~

~~quality step~~ credit quality step 1 in the table set out in *BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps)* in the ~~credit quality assessment scale~~ published by the ~~appropriate regulator~~ for the purpose of *BIPRU 3 (The Standardised Approach: mapping of the ECAIs credit assessments to credit quality steps (Long term mapping))*; and

...

12.7.6A R ...

- (1) the *designated multilateral development bank* in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with ~~credit quality step~~ credit quality step 1 in the table set out in *BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps)* in the ~~credit quality assessment scale~~ published by the ~~appropriate regulator~~ for the purpose of *BIPRU 3 (The Standardised Approach: mapping of the ECAIs' credit assessments to credit quality steps (Long term mapping))*; and

...

After BIPRU 12, insert the following new annex. The text is not underlined.

12 R Mapping of credit assessments of ECAIs to credit quality steps
Annex 1

Credit Quality Step	Fitch's assessment	Moody's assessments	S&P's assessments	DBRS' assessments
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
2	A+ to A-	A1 to A3	A+ to A-	AH to AL
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
5	B+ to B-	B1 to B3	B+ to B-	BH to BL
6	CCC+ and below	Caa1 and below	CCC+ and below	CCCH and below

Part 2: Comes into force on a date specified by a subsequent PRA Board Instrument.

12.1 Application

12.1.1 R Subject to *BIPRU* 12.1.2R, *BIPRU* 12 applies to:

...

(2) ~~an incoming EEA firm which:~~

(a) ~~is a CRD credit institution; and~~

(b) ~~has a branch in the United Kingdom [deleted]; and~~

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