

**PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND INVESTMENT FIRMS
(LIQUIDITY STANDARDS) AMENDMENT
INSTRUMENT 2014**

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) 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 (2) (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. This instrument comes into force on 26 May 2014.

Amendments

- E. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- F. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex B to this instrument.

Citation

- G. This instrument may be cited as the Prudential sourcebook for Banks, Building Societies and Investment Firms (Liquidity Standards) Amendments Instrument 2014.

By order of the Board of the Prudential Regulation Authority
23 May 2014

Annex A**Amendments to the Glossary of definitions**

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>Shari'ah compliant firm</i>	a <i>firm</i> whose entire operations are structured and conducted in accordance with Islamic commercial jurisprudence and its investment principles.
<i>sukuk</i>	certificates of equal value representing an undivided interest in the ownership of specified assets or investments acquired or to be acquired and that comply with Islamic commercial jurisprudence and its investment principles, but excluding <i>shares</i> .

Annex B

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

In this Annex, all text is new and is not underlined.

12.7 Liquid assets buffer

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12.7.2A R Notwithstanding *BIPRU* 12.7.2R, for the purpose of satisfying *BIPRU* 12.2.8R a *Shari'ah compliant firm* may include *sukuk* in its liquid assets buffer.

...

12.7.8A R For the purpose of *BIPRU* 12.7.2AR, a *Shari'ah compliant firm* may include only a *sukuk* which:

- (1) is issued by a government or central bank or *designated multilateral development bank*; or
- (2) satisfies the following conditions:
 - (a) the *sukuk* is not issued by a member of the *financial sector* or where that member is a member of a *group* by any member of that *group*; and
 - (b) the issuer of the *sukuk* has been assessed by at least one *eligible ECAI* as having a credit rating associated with credit quality step 3 or above in the table set out in *BIPRU* 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps).

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12.7.8B R For the purpose of *BIPRU* 12.7.8AR, a *Shari'ah compliant firm* may count *sukuk* only up to the limits on the share of total assets in the *firm's* liquid assets buffer and after haircuts have been applied as follows:

- (1) For the purpose of *BIPRU* 12.7.8AR(1),
 - (a) if the central bank or government or *designated multilateral development bank* in question has been assessed by at least one *eligible ECAI* as having a credit rating associated with credit quality step 1 in the table set out in *BIPRU* 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps), *sukuk* can comprise an unlimited share of the total assets in the *firm's* liquid assets buffer and are not subject to a haircut; or
 - (b) if the central bank or government or *designated multilateral development bank* in question has been assessed by at least one *eligible ECAI* as having a credit rating associated with credit quality step 2 in the table set out in *BIPRU* 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps), *sukuk* can comprise not more than 40% of the total assets in the *firm's* liquid assets buffer after a haircut of 25% has been

applied; or

- (c) in all other cases, *sukuk* can comprise not more than 20% of the total assets in the *firm's* liquid assets buffer after a haircut of 50% has been applied.
- (2) For the purpose of *BIPRU* 12.7.8AR(2), *sukuk* cannot comprise more than 10% of the total assets in the *firm's* liquid assets buffer after a haircut of 50% has been applied.
- (3) The total amount of *sukuk* not falling under *BIPRU* 12.7.8BR(1)(a) cannot comprise more than 40% of the total amount of assets in the *firm's* liquid assets buffer.

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12.7.12A R For the purpose of *BIPRU* 12.7.8AR(1) and (2), a *Shari'ah compliant firm* must count *sukuk* only that comply with *BIPRU* 12.7.9R(1), (2) and (3).