

# FINANCIAL SERVICES

## Strengthening Liquidity Standards



### Adequate Liquidity Resources

### Investment Firms

New requirements for banks, building societies and investment firms came into force on 1 Dec 2009. The requirements are for all firms:

- to determine and maintain adequate liquidity resources;
- have appropriate systems and controls in place for managing the risk they incur: and
- to demonstrate compliance by quantitative and qualitative reporting.

### Adequate Liquidity Resources

The adequacy of liquidity needs to be assessed by each firm themselves, and is subject to review by the Financial Services Authority (FSA).

In determining their individual liquid resource requirement firms need to identify their risk in a number of areas and thoroughly consider their impact under stress.

The calculation of liquid resources may not include those that can be made available by other members of a group.

### Investment Firms

#### Full scope

Full scope BIPRU firms (ILAS BIPRU firm) must comply with the individual liquidity adequacy standards (ILAS) and must carry out an individual liquidity adequacy assessment, involving stress testing and compliance with the systems and controls regulations. The assessment is

subject to detailed review and approval by the FSA. ILAS firms are also subject to the regulations for liquidity management and will need to maintain a buffer of high quality government bonds to enable them to cope during periods of stress.

#### Non-ILAS

BIPRU Limited licence firms, and Exempt ILAS firms (ie net assets of < £50m) are subject to the overall liquidity adequacy rule and 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. These firms will also need to comply with the systems and controls requirements. However, the reporting requirement is limited to an Annual Systems & Controls Questionnaire within 15 days of the year-end.

#### Simplified ILAS

Firms with relative simple business model may be able to obtain a waiver from the FSA which would allow them to undertake an individual liquidity systems assessment proportionate to the nature and complexity of the business and be prepared to submit this to the FSA on request.

#### Implementation

The systems and control requirements for investment firms came into force on 1 December 2009. There is a transitional period for the quantitative requirements which requirements will apply in full from 1 November 2010.

# FINANCIAL SERVICES

## Strengthening Liquidity Standards

### LONDON

10 Orange Street  
Haymarket  
London  
WC2H 7DQ

**T** +44 (0)20 7312 0000  
**F** +44(0)20 7312 0022  
**E** [advice@shipleys.com](mailto:advice@shipleys.com)

### GODALMING

3 Godalming Business Centre  
Woolsack Way  
Godalming  
Surrey  
GU7 1XW

**T** +44 (0)1483 423607  
**F** +44 (0)1483 426079  
**E** [godalming@shipleys.com](mailto:godalming@shipleys.com)

### SAFFRON WALDEN

Market House  
10 Market Walk  
Saffron Walden  
Essex  
CB10 1JZ

**T** +44 (0)1799 521301  
**F** +44 (0)1799 523854  
**E** [saffron@shipleys.com](mailto:saffron@shipleys.com)

### BIRMINGHAM

2nd Floor  
3 Brindley Place  
Birmingham  
B1 2JB

**T** +44 (0)121 698 8566  
**F** +44 (0)121 698 8600  
**E** [birmingham@shipleys.com](mailto:birmingham@shipleys.com)



Shipleys is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

Registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.

© Shipleys LLP 2010 03

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered