

Policy Statement | PS1/19

# Liquidity reporting: FSA047, FSA048, and PRA110

January 2019



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## 1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 22/18 ‘Liquidity reporting: FSA047 and FSA048’<sup>1</sup> and the proposal in CP16/18 ‘Regulatory reporting: occasional consultation paper’ to correct the level of consolidation of the PRA110 reporting requirements.<sup>2</sup> It also contains the PRA’s final policy, as follows:

- amendments to the Regulatory Reporting Part of the PRA Rulebook (Appendices 1 and 2); and
- updated Supervisory Statement (SS) 34/15 ‘Guidelines for completing regulatory reports’ (Appendix 3).

1.2 This PS is relevant to banks, building societies, and PRA-designated investment firms, referred to collectively as ‘firms’.

### Background

1.3 In CP22/18 the PRA proposed to:

- delay terminating the FSA047 and FSA048 for six months from Monday 1 July 2019; and
- reduce the reporting frequency of the FSA047 and FSA048 liquidity reports to align with that of the PRA110 report, in cases where it would otherwise differ, from Monday 1 July 2019.

1.4 In CP16/18 the PRA proposed to correct the Regulatory Reporting Part to reflect the requirement for firms to report the PRA110 at the consolidated and sub-consolidated level (where applicable). PS2/18 ‘Pillar 2 Liquidity’ omitted this requirement<sup>3</sup> and did not reflect the intentions of the PRA as stated in CP13/17 ‘Pillar 2 Liquidity’.<sup>4</sup> PS30/18<sup>5</sup> which set out final policy for CP16/18, did not implement this policy change noting it was subject to the outcome of CP22/18.

### Summary of responses

1.5 The PRA received six responses to CP22/18. Respondents made suggestions to change the policy to reduce the reporting burden and some sought clarifications. The PRA’s feedback to these responses is set out in Chapter 2.

1.6 The PRA received no comments in response to the proposal in CP16/18 to correct the applicable consolidation levels at which PRA110 will be reported.

<sup>1</sup> October 2018: see page 2 of 2 at <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/liquidity-reporting-fsa047-and-fsa048>.

<sup>2</sup> July 2018: see page 2 of 2 at <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/regulatory-reporting-occasional-consultation-paper>.

<sup>3</sup> February 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/pillar-2-liquidity>.

<sup>4</sup> July 2017: see page 2 of 2 at <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/pillar-2-liquidity>.

<sup>5</sup> December 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/regulatory-reporting-occasional-consultation-paper>.

### Changes to draft policy

1.7 Where the final rules differ from the draft in the CP in a way which is, in the opinion of the PRA, significant, the Financial Services and Markets Act 2000 (FSMA)<sup>6</sup> requires the PRA to publish:

- (a) details of the difference together with a cost benefit analysis; and
- (b) a statement setting out in the PRA's opinion whether or not the impact of the final rule on mutuals is significantly different to the impact that the draft rule would have had on mutuals, or the impact that the final rule will have on other PRA-authorized firms.

1.8 Following consideration of responses to CP22/18, the PRA has made one change to PRA110 remittance dates during the dual reporting period, and one clarification to reporting expectations in stress. The PRA does not consider these revisions to the draft policy to be significant, or that the impact is significant, or significantly different, for mutuals. These revisions should reduce firms' reporting burden and provide firms with greater clarity over their reporting obligations respectively. Further details on these changes are set out in Chapter 2.

### Implementation and next steps

1.9 The amendments to the Regulatory Reporting Part will be implemented by repealing instrument PRA 2018/3, as set out in Appendix 1, and issuing a new instrument, as set out in Appendix 2. The rules will take effect from the dates outlined in the new instrument. Please note that the name of the new instrument in Appendix 2 has been revised from that in CP22/18, to make clear that it relates to liquidity reporting. The changes to SS34/15 (Appendix 3) will take effect from the date of publication of this PS.

1.10 The policy in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the EU take effect.

## 2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.<sup>7</sup>

2.2 The sections below have been structured broadly to address responses to the proposals in CP22/18 as follows:

- dual reporting period; and
- scope and frequency of reporting.

2.3 No responses were received in relation to the proposal in CP16/18 to correct the Regulatory Reporting Part to require that firms report the PRA110 at the consolidated and sub-consolidated level (where applicable). This proposal has been adopted without change.

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<sup>6</sup> Sections 138J(5) and 138K(4).

<sup>7</sup> Sections 138J(3);2L; and 138J(4) of FSMA.

## Dual reporting period

2.4 The PRA proposed to delay terminating the FSA047 and FSA048 for six months from Monday 1 July 2019 so that reporting overlaps with the implementation of the new PRA110 report.

2.5 All six respondents noted, in qualitative terms, the additional reporting burden that extending the requirement to report the FSA047 and FSA048 for a further six months would entail. One respondent also suggested that despite adjustments, the underlying cost estimates from 2009 used in the cost benefit analysis (CBA) do not reflect firms' current situations. Having considered this feedback, the PRA remains of the view that the CBA in CP22/18 is proportionate to the scope of the policy changes proposed, and that it would have been disproportionate to collect new cost data from firms. The PRA also notes that no respondent provided updated cost estimates in responding to the CP.

2.6 Two respondents questioned the value of participating in the voluntary, interim PRA110 reporting period prior to 1 July 2019, given the proposal to require a period of dual reporting after the PRA110 report is implemented.<sup>8</sup> The PRA believes that interim PRA110 reporting remains of value to firms because it will help the PRA to provide early feedback on PRA110 reporting, including by publishing a spreadsheet tool (eg similar to the current Liquidity Metric Monitor), which will explain how selected monitoring metrics will be calculated using the PRA110 report.

2.7 Respondents also made a number of suggestions as to how the proposed period of dual reporting might be adjusted to reduce the reporting burden.

2.8 Two respondents argued that the PRA could address the risks to liquidity reporting noted in the CP by delaying implementation of the PRA110 by six months and encouraging further voluntary PRA110 reporting. A third respondent also suggested delaying PRA110 implementation and argued that the PRA should use this time to reconsider whether data from the European Banking Authority Maturity Ladder Template (C66.01) would be sufficient to monitor non-systemic firms instead of requiring them to report the PRA110. Otherwise, this respondent suggested that the PRA should reduce the scope of data and the reporting frequency of the PRA110 required for non-systemic firms.

2.9 The PRA has considered this feedback and has decided not to delay implementing the PRA110 report or to amend the associated reporting requirements. The PRA makes the following observations in relation to this decision.

- As noted in CP13/17 and confirmed in PS2/18, C66.01 will not provide all the information required to monitor firms' cash flow mismatch risk (CFMR). The PRA considers that the scope and frequency of PRA110 reporting requirements are appropriate, including for non-systemic firms.
- The PRA acknowledges that introducing a dual reporting period will increase firms' reporting burden. But the PRA also notes that the PRA110 will replace the FSA047 and FSA048 as an important source of liquidity data used to inform supervisory judgements in normal times and in times of stress. It is vital to manage risks to the quality of, and continuous access to, liquidity data during the transition to, and for a period immediately after, live reporting of the PRA110 commences in 2019.

<sup>8</sup> See the PRA's update on 12 July 2018 for information about interim PRA110 reporting, available in the 'Regulatory reporting banking sector updates – 2018' section on the Regulatory reporting – banking sector webpage: <https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector>.



- The PRA considers that delaying PRA110 implementation and/or relying only on interim PRA110 reporting would not appropriately address the identified transition risks. While interim reporting is a valuable means of facilitating early feedback, as noted in CP22/18, it is only on a partial basis and from a subset of firms. Moreover, the PRA has already delayed PRA110 implementation by six months, in response to firms' feedback to CP13/17. To do so again would further delay the transition to updated liquidity metrics aligned to the Liquidity Coverage Requirement (LCR) for monitoring CFMR.

2.10 Three respondents suggested that if the PRA does not delay implementing the PRA110 it should consider reducing the period of required dual reporting, either by amending the proposed reporting requirements in this PS or after PRA110 reporting commences on 1 July 2019. Respondents' suggestions varied as to whether a reduction should apply to all firms, subsets of firms, or on a firm-by-firm basis: taking into account factors such as firms' C66.01 reporting, PRA110 preparations or quality of PRA110 reporting. Another respondent argued that if a firm participates in interim PRA110 reporting it should be exempt from dual reporting requirements from 1 July 2019.

2.11 The PRA has considered this feedback and has decided to maintain the proposal to delay the termination of the FSA047 and FSA048 liquidity reports by six months for all firms. The PRA considers that this strikes an appropriate balance between additional reporting burden, prudential benefits, and the operational risks and frictions associated with making adjustments to reporting requirements after 1 July 2019. This judgement was informed by the PRA's experience in implementing the FSA047 and FSA048 liquidity reports, which indicated that firms need time to bring reporting to the required standard.<sup>9</sup> The PRA anticipates that this period of overlap will provide time to identify and remediate concerns with firms' PRA110 reporting, to clarify or make minor corrections to the reporting template or instructions, and to ensure data continuity to support peer-group comparisons on a consistent basis.

### Scope and frequency of reporting

2.12 In CP22/18 the PRA proposed to reduce the reporting frequency of FSA047 and FSA048 liquidity reports to align with the PRA110 report, in cases where it would otherwise differ, from Monday 1 July 2019. A benefit of this approach would be to align reporting observation dates to facilitate comparisons between the reports.

### Reporting in business-as-usual conditions

2.13 Two respondents noted that requiring submission of the PRA110, FSA047 and FSA048 on the same day during the dual reporting period would concentrate the increase in reporting burden, particularly for weekly reporters in months when quarterly reporting also falls due on a Monday. Respondents made a number of suggestions to address this.

2.14 One respondent suggested that the PRA should reduce the reporting frequency of FSA047 and FSA048 reports for weekly reporters to once a month – referencing the final Friday of the month to align reporting observation dates – and extend the submission date from one business day to five business days. This same respondent, and one other, also suggested that the PRA reduce the scope of FSA047 and FSA048 reporting required to only the material reporting entity and only on a consolidated currency basis. The PRA has considered this feedback and believes that reducing the scope and/or frequency of FSA047 and FSA048 reporting from 1 July 2019 would not facilitate appropriate assurance over data quality or adequate data continuity.

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<sup>9</sup> See paragraph 3.6 in PRA Consultation Paper CP27/14 'CRD IV: Liquidity', November, 2014: see page 3 of 3 at <https://www.bankofengland.co.uk/prudential-regulation/publication/2014/crd-iv-liquidity>.

2.15 Two other respondents suggested extending the submission deadline for weekly reporting in business-as-usual conditions during the dual reporting period. One suggested extending it from one to two business days for the FSA047 and FSA048, and another to three business days for the PRA110 or the FSA047 and FSA048. A third respondent also commented that it had previously suggested in feedback to CP13/17 that two business days rather than one business day should be the default PRA110 requirement in order to alleviate pressure on firms to complete and sign-off all data validation and control checks in a very short timeframe.

2.16 In light of this feedback, the PRA has decided to extend the submission deadline for those firms that would report the PRA110 on a weekly basis in business-as-usual conditions from one business day to two business days from Monday 1 July 2019 until Thursday 31 October 2019.<sup>10</sup> This will provide a transition period during which firms will have a longer timeframe to complete internal assurance on early PRA110 reporting. The weekly PRA110 submission date in business-as-usual conditions will then revert to one business day from Friday 1 November 2019. The PRA expects that by this time firms' reporting processes should be more mature, and considers it prudent to transition submission to one business day prior to the end of the dual reporting period. Extending submission dates for the FSA047 and FSA048, rather than the PRA110, was considered but would introduce operational risks to receiving higher frequency reporting in a stress.

### Reporting in a stress

2.17 One respondent sought clarification on whether the PRA would still require firms to submit the FSA047 and FSA048 liquidity reports at higher frequencies in the event of a stress, alongside PRA110, during the dual reporting period.

2.18 The Regulatory Reporting Part requires that firms report both the PRA110 and the FSA047 and FSA048 at a higher frequency in a stress. But the PRA may invite firms to apply for a waiver or modification of the rules.<sup>11</sup> The PRA clarifies that, in the event of a stress during the dual reporting period, it anticipates in most cases inviting firms to apply to waive or modify the higher frequency reporting requirement for either the PRA110 or the FSA047 and FSA048, but not both. If the PRA grants modifications or waivers, one set of liquidity reports will continue to be submitted at business-as-usual, rather than stress, frequencies. The PRA considers that the closer to the end of the dual reporting period that a stress occurs, the more likely it is that the PRA would be comfortable waiving or modifying higher frequency reporting of the FSA047 and FSA048 rather than the PRA110. To aid comparability, the language describing the higher frequency PRA110 reporting requirements in a stress in the Regulatory Reporting Part of the PRA Rulebook has been revised to better mirror the FSA047 and FSA048 requirements.

### Data comparisons

2.19 Two respondents asked about the PRA's approach to cross checks between liquidity reports during the dual reporting period and whether the PRA would share its methodology. The PRA notes there are differences in scope, timing, and definitions between the PRA110 and other liquidity reports, and so anticipates taking a judgement rather than a strict validation approach to comparing firms' reporting in most cases. Firms should develop their own reconciliations between liquidity reports as appropriate for their business and risk appetite.

<sup>10</sup> The requirement that firms submit the PRA110 within one business day in a stress, for firms that would otherwise report weekly, will remain unchanged.

<sup>11</sup> 7.2(6)(a), 7.2(6)(b), 7.2(13)(a), 7.2(13)(b), 9.3(3)(a), 9.3(3)(b), 9.3(10)(a) or 9.3(10)(b) of the Regulatory Reporting Part.



## Appendices

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- 1 PRA RULEBOOK: CRR FIRMS: REGULATORY REPORTING (REPEAL OF PRA RULEBOOK: CRR FIRMS: REGULATORY REPORTING PRA110 AMENDMENT INSTRUMENT 2018) INSTRUMENT 2019, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/liquidity-reporting-fsa047-and-fsa048>

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  - 2 PRA RULEBOOK: CRR FIRMS: LIQUIDITY REGULATORY REPORTING (AMENDMENT) INSTRUMENT 2019, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/liquidity-reporting-fsa047-and-fsa048>

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  - 3 SS34/15 'Guidelines for completing regulatory reports', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss>