

Finansinspektionen's Regulatory Code

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Regulations amending Finansinspektionen's regulations (FFFS 2010:7) regarding management of liquidity risks in credit institutions and investment firms;

FFFS 2014:21

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decided on 26 June 2014.

Finansinspektionen prescribes pursuant to Chapter 5, section 2, point 5 of the Banking and Financing Business Ordinance (2004:329) and Chapter 6, section 1, point 10 of the Securities Market Ordinance (2007:572) with regard to Finansinspektionen's regulations (FFFS 2010:7) regarding management of liquidity risks in credit institutions and investment firms

in part that the heading of Finansinspektionen's regulations (FFFS 2010:7) regarding management of liquidity risks in credit institutions and investment firms, and Chapter 1, sections 1, 2 and 4, Chapter 2, sections 5 and 7, Chapter 3, sections 1, 4 and 10 and Chapter 4, sections 5 and 10 shall have the following wording, *in part* that a new chapter, Chapter 5, shall be inserted into the regulations with the following wording.

Finansinspektionen's regulations regarding management and disclosure of liquidity risks in credit institutions and investment firms

Chapter 1

Section 1 These regulations contain provisions governing how a firm shall manage its liquidity risks and disclose information regarding liquidity risk.

Section 2 These regulations apply to

1. banking companies,
2. savings banks,
3. members' banks,
4. credit market companies,
5. credit market associations, and
6. investment firms.

A parent company shall also apply the regulations on the basis of the firm's consolidated situation according to Article 18(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amendment of Regulation (EU) No 648/2012. What is specified regarding the board of directors and managing director shall then apply to the parent company's board of directors and managing director.

A firm that is part of a consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms does not need to individually meet the requirements in accordance with Chapter 4, section 5 if it, together with other firms in the group, meets the requirements at group level and there are legally binding commitments of sufficient liquidity support between that firm and the firm where the liquidity reserve is held, and the liquidity is freely transferable between these firms. The same applies to a subsidiary that is part of a consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms that is under group supervision within the EEA, if the firm is subject to national regulations regarding management of liquidity risk that are equivalent to these regulations.

A firm that is part of a consolidated situation according to Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms does not need to individually meet the requirements in Chapter 5 if the parent company meets the requirements on the basis of the consolidated situation.

Section 4 These terms and expressions shall have the following meaning:

– *subsidiary*: an institution and a financial institution which, according to Article 4(16) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, is the subsidiary of a parent company.

Liquidity risk: the risk of not being able to meet payment obligations on the due date without the cost of obtaining the funds increasing considerably.

– *parent company*: the undertaking according to Article 11(3) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms that is responsible for the requirements placed on the basis of a consolidated situation are being met.

– *investment firm*: an investment firm according to the definition in Chapter 1, section 5, point 26 of the Securities Market Act (2007:528).

Chapter 2

Section 5 Guidelines and instructions for the management of liquidity risk shall ensure that the firm monitors and meets future liquidity needs during both normal daily management and temporary and protracted crisis situations. They shall also provide instructions regarding the division of responsibility and tasks, measurement methods, limits, follow-up and reporting. The guidelines and instructions shall refer to the firm as a whole including any branches and, where applicable, coordination between them.

A subsidiary that is part of a consolidated situation according to Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms shall, when producing its own guidelines, instructions and strategies, observe the guidelines and instructions that apply for the group.

Section 7 There shall, in each firm, be a central function for the independent control of liquidity risk (liquidity risk control) that reports to the managing director or a member of senior management who is not responsible for position-taking units. The central liquidity risk control function shall be knowledgeable about

financial instruments, liquidity risks and methods for governance and control of liquidity risks.

If the firm has a central function for risk control, the liquidity risk control can be carried out by this function.

If a firm is part of a consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, the central liquidity risk control function may be placed at the parent company. The central liquidity risk control function is responsible for the regular reporting and analysis of the firm's, and where applicable the group's, liquidity risks.

If a firm has placed a function for liquidity risk control locally within a position-taking unit, the local function shall report to the central liquidity risk control function or the central risk control function if one exists.

A subsidiary that is part of a consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms shall adapt its liquidity risk control function to the group-wide liquidity risk control function.

Chapter 3

Section 1 A firm shall identify and measure its exposures to liquidity risks and funding needs within and across different business lines and currencies.

A parent company shall specifically take account of and document various legal and operational limitations on freely transferring liquidity and collateral between firms included in the consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

Section 4 A firm shall calculate the cash flows expected to arise when all assets, liabilities and off-balance sheet items fall due. Cash flows shall be allocated to the various horizons in which they are normally expected to occur. However, cash flows from assets in the liquidity reserve in accordance with Chapter 4 shall be attributed to the earliest horizon in which the asset can be converted into funds.

The firm shall use daily horizons in its calculation. Unless because of its size it is deemed inappropriate or unreasonable to use daily horizons, the firm may use a minimum of seven horizons: one day, more than one day to one week, more than one week to one month, more than one month to three months, more than three months to six months, more than six months to one year, more than one year. The horizons shall be mutually exclusive and collectively exhaustive. A parent company shall always use daily horizons up to one year on the basis of the undertaking's consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The firm shall calculate the net cash flow for each horizon as the sum of the expected cash outflows minus the sum of the expected cash inflows. The firm shall thereafter accumulate the net cash flow across all horizons in order to demonstrate how long it has a positive cash flow.

Section 10 A subsidiary that is part of a consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms may take into account its role and position in the group when applying sections 7–9.

Chapter 4

Section 5 A firm shall hold a separate reserve of high-quality liquid assets to secure the firm's short-term capacity to meet payment obligations in the event of lost or impaired access to regularly available funding sources. The assets in the liquidity reserve shall be unencumbered. The size of the liquidity reserve shall be such to enable the firm to withstand a serious liquidity shortfall without needing to alter its business model.

The liquidity reserve shall consist of assets that enable the rapid creation of liquidity at foreseeable values. The liquidity reserve shall be composed of assets that are both liquid on private markets and eligible for refinancing by central banks. Deposits with central banks or any other bank that will be available the following day may be calculated as part of the liquidity reserve.

The firm shall ensure that there are no obstacles to drawing on the reserve's assets for short-term funding.

When determining the size and location of the liquidity reserve, a parent company shall take into account the degree to which firms within the group shall be self-sufficient in terms of liquidity and the scope of liquidity support for subsidiary undertakings.

An firm with liquidity risk in different currencies shall to the greatest extent possible allocate liquidity across currencies to avoid potential disruptions in the swap markets.

Section 10 A subsidiary that is part of the consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms may take into account its role and position in the group when applying section 9.

Chapter 5 Disclosure of information

Information to be disclosed annually at a minimum

Section 1 A firm shall at least once a year disclose the information described in sections 7–9. The information shall relate to the conditions at the date for the firm's annual accounts or, where appropriate, the consolidated accounts that comprise the firms included in the consolidated situation in accordance with Article 18(1) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The information shall be disclosed in conjunction with the disclosure of the annual or consolidated accounts.

The information shall contain a statement that it is in reference to the information that shall be submitted annually at a minimum in accordance with these regulations.

Information to be disclosed quarterly

Section 2 A firm shall, four times per year, disclose the information described in section 9. The information shall relate to the conditions on the dates 31 March, 30 June, 30 September and 31 December.

The information shall be disclosed as quickly as possible, though no later than two months after the the last date in each calendar quarter as per the first paragraph. If a firm opts to disclose the information specified in section 9 at the same time as it discloses information pursuant to section 1, it shall be disclosed no later than four months after the last date in each calendar quarter as per the first paragraph.

The information shall contain a statement that it is in reference to the information that shall be submitted four times per year at a minimum in accordance with these regulations.

Section 3 A firm shall assess whether the firm's or group's activities require that it disclose some or all of the information in accordance with these regulations more frequently than that set out in sections 1 and 2.

Section 4 In the information submitted in accordance with sections 2 and 3, expressions and terms shall, to the extent possible, be the same as those used in the annual information referred to in section 1.

Where information shall be available and information about the firm

Section 5 The information to be disclosed pursuant to this chapter shall be available on the firm's website and may be included in the annual accounts, consolidated accounts or quarterly reports of the firm. If the firm discloses the information in any of these documents, it shall be available on the firm's website.

If the firm does not have a website, it shall be able to provide the information to the public in a different manner.

Section 6 A firm shall, when it discloses information in accordance with this chapter, state its full name and company registration number.

Information concerning liquidity risk

Section 7 A firm shall disclose information in accordance with sections 8 and 9 that enables market participants to make well-informed assessments about the firm's ability to manage liquidity risk and its liquidity position.

Section 8 The firm shall describe its strategy and guidelines for managing liquidity risk and how its function for managing liquidity risk is organised. Furthermore, the scope of risk reporting and measurement systems, and how they are devised, shall be described. The firm shall also describe which stress tests it performs and how its contingency plan is devised.

Section 9 The firm shall also disclose quantitative information about its liquidity positions that enables market participants to gain insight into the firm's liquidity risk. As a minimum, the firm shall disclose information about the size and composition of its liquidity reserve, the size and allocation of different funding sources and the values of various risk metrics and key ratios. The firm shall also

disclose sufficient qualitative information about the risk metrics and key ratios it uses in order to enable market participants to understand them.

Section 10 Finansinspektionen decides on exemptions from the provisions in this chapter where special grounds exist.

These regulations shall enter into force on 2 August 2014.

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