GUIDANCE FOR PREPARING

LIQUIDITY COVERAGE RATIO (LCR) REPORTING FORM

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# General Information

1. The LCR Reporting Form (also used for the underlying calculations for the LCR by Significant Currency) (the “return”) is applicable to banks incorporated in the Isle of Man licensed under the Financial Services Act 2008 to conduct Class 1(1) or Class 1(2) deposit taking.
2. Rule 2.20(1) states that a bank must prepare deposit taking returns and Rule 2.20(4) states that the deposit taking returns must be in the format specified by the Authority, containing the information required by, and calculated in accordance with, the specifications. For the purpose of Rule 2.20(4), the LCR Reporting Form (which is also used for the calculation of the LCR by Significant Currency) is a form specified by the Authority which should be completed as set out in this guidance.

The LCR Reporting Form must be completed and submitted to the Authority for the aggregate LCR (all currencies combined) using the following sheets:

1. Sheet 1 - High Quality Liquid Assets (HQLA)
2. Sheet 2 – Cash Outflows
3. Sheet 3 – Cash Inflows
4. Sheet 4 - LCR Calculation
5. Attention is drawn to Rule 5.14 of the Financial Services Rule Book (“the Rule Book”) which requires that the external auditors of the bank select and verify one set of the reporting forms (other than a set that coincides with the deposit taker’s annual reporting date) which has been submitted to the Authority during the relevant accounting period, to the accounting books and records of the bank.
6. The spreadsheet workbook is “protected” to prevent alterations to the return structure and content in order for the return to be successfully submitted to the Authority’s data warehouse. You must not tamper with the spreadsheet protection and validation or alter the structure or validation by adding or removing spreadsheet tabs or fields.
7. This guidance document, which generally follows the Basel III LCR Standard[[1]](#footnote-1), provides direction on how to complete the return. Firms must complete all relevant sections of the submission template, in accordance with this guidance. Grey areas within the tables in the return are input cells. Blue areas within tables are calculated fields or fields where no entry is required/permitted. The default value in all grey data cells for completion must be zero (where no other value is entered) and must not be left blank.
8. The aggregate LCR (Sheets 1 to 4, all currencies combined) must be completed and reported in sterling, with any other currency business being calculated as a sterling equivalent figure using the middle market spot rate in the London market at the close of business on the reporting date, or as close to that time as a bank’s system will allow. For transactions, the rate ruling at the time of the transaction should be used. Figures reported should be to the nearest thousand pounds sterling (but omitting the “£’000s” - e.g. £5,678,123 should be reported as 5678). Decimal points must not be used.
9. If required, as part of other liquidity monitoring metrics, a bank must also submit an “LCR by Significant Currency” reporting form. A currency is considered “significant” if the aggregate liabilities denominated in that currency amount to **5% or more of the bank's total liabilities**. The calculation of each relevant foreign currency LCR can be done using the template sheets 1 to 4. **The requirements for reporting the “LCR by Significant Currency” are set out separately and do not form part of this guidance**.
10. Standard regulatory adjustments and weightings are generally used. These are shown under the columns headed “Weight”, “Standard Run-Off Factor” and “Standard Inflow Factor” for the respective sheets of the LCR Reporting Form. These standard regulatory adjustments and weightings will flow through the columns headed “Weighted Amount”, “Applied Run-Off Factor” and “Applied Inflow Factor” respectively. However, there are some Items in the LCR Reporting Form where banks may be required to input adjustments specific to certain transactions. Where this is the case, for example in respect of Sheet 2 “Outflows”, cells in the column headed “Applied Run-Off Factor” are white.
11. Firms should submit the return to [[**TBC**](mailto:returns@iomfsa.im)]. The LCR Reporting Form must be reported to the Authority on a ***calendar quarterly basis*** as part of the Quarterly Prudential Returns. It should be prepared based on the information as at either the last working day, or the last calendar day, of March, June, September and December. ***Firms must submit the return within one month of each reporting date and earlier submission is encouraged***.
12. Banks must have the operational capacity to increase the frequency of reporting, for example to monthly or weekly in stressed situations at the discretion of the Authority.
13. Send any enquiries regarding the completion of the return, or the interpretation of this guidance, to [**TBC**].
14. Under Section 40 of the Financial Services Act 2008 a person commits an offence if they knowingly or recklessly give any information to the Authority which is false or misleading.

# Cover Sheet

1. The current return version number is 1.0, as stated in cell E3 of the Cover Sheet of the return template available on our website. This version must be used otherwise the return will be rejected.
2. Completion of the Cover Sheet spreadsheet is mandatory and the form sections should be completed as follows:
   * **Firm Information**: Input the full registered name of the firm. For this return-type and name, the reporting period should be input as the calendar quarter start and end dates in the format specified.

* **Firm Declaration**: A Notified and Accepted role holder within the firm or an R17 Notified Only role holder must complete the Firm Declaration. The primary Controlled Function(s) held should be input in the “Position” field. [Please note that only one signatory is required for this return].
* **Comments:** Additional information to explain the data submitted may be input to this non-mandatory free text field. For example, you may explain any material variances or assumptions made.

1. Note: validation is embedded into the Cover Sheet; if cell G2 shows an “Incomplete” error message this means either the Cover Sheet or content of the return is insufficiently completed. You can review column G to help determine the cause of the issue. Cell G2 must show as “complete”, or the return will be rejected by the data warehouse.

# Glossary of Terms

|  |  |
| --- | --- |
| **Alternative Liquidity Approach (ALA)** | Alternative treatments for holdings in the stock of High-Quality Liquid Assets (HQLA). |
| **The Authority** | The Isle of Man Financial Services Authority |
| **Basel Committee on Banking Supervision (BCBS)** | The primary global standard setter for the prudential regulation of banks which provides a forum for regular cooperation on banking supervisory matters. |
| **Bank / reporting bank** | In the context of the LCR Reporting Form and the LCR by Significant Currency, this is the Isle of Man incorporated entity that has been issued with a Class 1(1) or Class 1(2) (Deposit Taking) licence under the Financial Services Act 2008 and includes branches of that entity. |
| **Current Market Value** | “Current market value”, for the purpose of determining the value of HQLA, is the highest value for which the asset can be realised, being either of:  - Repo value (only assets for which a deep and active repo market exists): the maximum amount that would be received under a repo, applying prevailing market values and haircuts; and  - Sale value: the current bid-price of the asset. |
| **Domestic** | “Domestic” for the purposes of sovereigns, PSEs or MDBs means the Isle of Man, other Crown Dependencies and the UK. |
| **Financial Institutions** | For example, regulated entities licensed under the Financial Services Act 2008, authorised under the Insurance Act 2008 or registered under the Insurance Act 2008 or the Retirement Benefits Schemes Act 2000 or persons undertaking equivalent activities outside the Isle of Man subject to prudential regulation by the Authority or by a body exercising functions corresponding to any of those of the Authority. |
| **Internal Liquidity Adequacy Assessment Process (ILAAP)** | TBC |
| **Liquidity Coverage Ratio Standard / LCR Standard** | The Liquidity Coverage Ratio Standard, also referred to as the LCR Standard, means the LCR Standard as it was incorporated into the consolidated Basel Framework and which contains frequently asked questions and responses, effective 15 December 2019.  The LCR Standard can be found at <https://www.bis.org/basel_framework/standard/LCR.htm> |
| **Liquidity Management Policy (LMP)** | TBC |
| **Multilateral Development Bank (MDB)** | An institution created by a group of countries that provides financing and professional advice for economic and social development projects. MDBs have large sovereign membership and may include both developed and/or developing countries. Each MDB has its own independent legal and operational status, but with a similar mandate and a considerable number of joint owners.  ***Eligible MDBs are defined at Annex C.*** |
| **Non-financial** | Not conducting those activities undertaken by financial institutions. |
| **Significant Currency** | A currency is considered to be “significant” if the aggregate liabilities denominated in that currency amount to 5% or more of the bank’s total liabilities. |
| **Small businesses** | Businesses where either:   1. the business borrows money from the bank and that borrowing meets the rules for the definition of “retail exposures” at Annex H to SR-1B (for banks adopting the simplified standardised approach to credit risk) and Annex J to SR-1B (for banks adopting the standardised approach to credit risk) i.e.    1. business’ turnover and balance sheet footings are less than £2m; and    2. the maximum aggregated retail exposure to the business does not exceed an absolute threshold of £750,000.   Or,   1. the business does not borrow from the bank, but its deposits are managed as retail deposits. This means that the bank treats such deposits in its internal risk management systems consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits. 2. In both cases (i) and (ii), the total aggregated funding raised from any one business or group of connected businesses should not exceed £750,000 (on a consolidated basis where applicable). |
| **Sound Principles** | Refers to the “Principles for Sound Liquidity Risk Management and Supervision” published in 2008 by the Basel Committee on Banking Supervision (BCBS). |
| **Standardised approach to credit risk** | The Isle of Man’s standardised approach to credit risk, including the simplified standardised approach to credit risk, is detailed in the Guidance Note for Deposit Takers, Quarterly Prudential Returns issued October 2017 in respect of Form SR-1B. |
| **Weighted Amount** | The value of an asset for HQLA purposes, determined after applying the relevant specified haircut. For each Item this is calculated as the “Current Market Value” multiplied by the Weight. |

# Introduction of the Liquidity Coverage Ratio (LCR)

The LCR is one of the minimum standards for funding liquidity with the specific purpose of promoting short-term resilience of a bank’s liquidity risk profile by ensuring that it has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for one month. Banks are expected to meet the minimum requirements of the LCR as well as adhere to the ***Sound Principles***.

The LCR on its own is insufficient to measure all dimensions of a bank’s liquidity profile. Consequently, to supplement the LCR, the Basel Committee on Banking Supervision (BCBS) developed the Net Stable Funding Ratio (NSFR) to promote resilience over a longer time horizon of one year. The NSFR is not covered by this document.

The BCBS also developed a set of monitoring tools supplementary to the LCR which are to be used for the ongoing monitoring of the liquidity risk exposures of banks, and in communicating these exposures among home and host supervisors. One of these supplementary monitoring tools is the LCR by Significant Currency, which is partly referenced in this document.

The Authority may impose any other liquidity measure considered appropriate to deal with the liquidity risk of a particular bank (on an individual or consolidated basis), or of the banking sector as a whole.

**LCR Stress Scenario**

The LCR stress scenario entails a combined idiosyncratic and market-wide shock that would result in:

1. The run-off of a proportion of retail deposits;
2. A partial loss of unsecured wholesale funding;
3. A partial loss of secured, short-term financing with certain collateral and counterparties;
4. Additional contractual outflows that would arise from a downgrade in the bank’s public credit rating by up to and including three notches, including collateral posting requirements;
5. Increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs;
6. Unscheduled draws on committed but unused credit and liquidity facilities that the bank has provided to its clients; and
7. The potential need for the bank to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk.

This stress test is a minimum supervisory requirement for banks. Banks are expected to conduct their own stress tests to assess the level of liquidity they should hold beyond this minimum and construct their own scenarios that could cause difficulties for their specific business activities. Such internal stress tests should incorporate longer time horizons than the one mandated by the LCR. Banks may be requested to share the results of these additional stress tests with the Authority.

**LCR Minimum Requirements**

The LCR has two components:

1. Value of the stock of HQLA in stressed conditions, calculated as per **Section 2**; and
2. Total net cash outflows[[2]](#footnote-2), calculated per **Sections 3, 4 and 5**.

The total net cash outflows for the scenario are calculated for 30 calendar days into the future. Absent a situation of financial stress, the LCR must be no lower than 100% (i.e. the stock of HQLA should at least equal total net cash outflows) on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. The Authority may also impose higher minimum or notification requirements on a bank.

During periods of stress, banks may use their stock of HQLA, and in such circumstances should discuss the situation with the Authority.

Where the bank’s LCR has fallen, or is expected to fall, below 100% (or any alternative higher limit the Authority may have set), irrespective of the circumstances, this will be a breach of the LCR minimum requirement. Banks must notify the Authority immediately as per the relevant reporting requirements at / under the [insert applicable references to rules or directions].

A bank will be required to present an assessment of its liquidity position, including:

1. The factors that contributed to its LCR falling below 100%,
2. The measures that have been and will be taken; and
3. The expectations on the potential length of the situation.

Enhanced reporting to the Authority, commensurate with the duration of the shortfall will generally be required. The Authority may also require the bank to take action to reduce its exposure to liquidity risk, strengthen its overall liquidity risk management, or improve its contingency funding plan.

Banks should use the LCR Reporting Form on an ongoing basis to help monitor and control liquidity risk.

**LCR by significant currency (foreign currency LCR)**

While the LCR must be met on an aggregate basis (i.e. all currencies combined) and reported in sterling, banks should also be aware of the liquidity needs in each significant currency (**being those that are** **5% or more of the bank's total liabilities**). The currencies of the stock of HQLA should be similar in composition to the operational needs of the bank. Banks cannot assume that currencies will remain transferable and convertible in a stress period, even for currencies that in normal times are freely transferable and highly convertible.

The foreign currency LCR is not a minimum requirement but a monitoring tool, it does not have an internationally defined minimum required threshold. Nonetheless, the Authority expects banks, which have significant foreign currency exposure, to operate to applicable foreign currency LCRs of 100% or higher wherever possible. The Authority may put in place notification requirements on banks in relation to foreign currency LCRs (especially if there are material mismatches / exposures) and may consider banks’ ability to raise funds in foreign currency markets and the ability to transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities. Therefore, any ratio the Authority may set will be higher for currencies in which the Authority or the bank evaluates the bank’s ability to raise funds in foreign currency markets or the ability to transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities to be limited.

*Reporting and monitoring*

For standard reporting purposes, as part of “liquidity monitoring metrics”, the Authority will agree with each bank whether it is required to calculate a foreign currency LCR for each significant currency (or a selection of currencies only). The calculation of each relevant foreign currency LCR can be done using the template sheets 1 to 4. **The information required to be reported to the Authority is set out separately and does not form part of this guidance.**

**Consolidated Returns**

A “Consolidated LCR” (in relation to banks incorporated in the Isle of Man, and in additionto solo returns that must be submitted) will normally be required in the following circumstances:

1. Where the bank has provided substantial finance (other than share capital) for subsidiary companies or where it carries on a significant part of its business through subsidiary companies;
2. Where the bank has a material subsidiary that is a licensed bank in the Isle of Man or elsewhere; or
3. Where the bank has a material subsidiary that conducts financial services business in the Isle of Man or elsewhere.

The requirements should be discussed and agreed with the Authority in advance.

*Treatment of liquidity transfer restrictions*

No excess liquidity should be recognised by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions[[3]](#footnote-3) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of high-quality liquid assets (HQLA) and fund flows within the group. The consolidated LCR should reflect such restrictions in a manner consistent with the consolidated reporting requirements outlined in Annex B HQLA - Operational Requirements. For example, the eligible HQLA that are held by a legal entity being consolidated to meet its local LCR requirements (where applicable) can be included in the consolidated LCR to the extent that such HQLA are used to cover the total net cash outflows of that entity, notwithstanding that the assets are subject to liquidity transfer restrictions. If the HQLA held in excess of the total net cash outflows are not transferable, such surplus liquidity should be excluded from the LCR calculation.

For practical reasons, the liquidity transfer restrictions to be accounted for in the consolidated ratio are confined to existing restrictions imposed under applicable laws, regulations and supervisory requirements. A banking group should have processes in place to capture all liquidity transfer restrictions to the extent practicable, and to monitor the rules and regulations in the jurisdictions in which the group operates and assess their liquidity implications for the group as a whole.

*Differences in home/host liquidity requirements*

When calculating the consolidated LCR, a cross-border banking group should apply the liquidity parameters adopted in the home jurisdiction (i.e. in this case the Isle of Man) to all legal entities being consolidated except for the treatment of retail / small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the branch or subsidiary operates. This enables the stressed liquidity needs of legal entities of the group (including branches of those entities) operating in host jurisdictions to be more suitably reflected, since deposit run-off rates are more influenced by jurisdiction-specific factors such as the type and effectiveness of deposit insurance schemes in place and the behaviour of local depositors.

Home requirements for retail and small business deposits will apply to the relevant legal entities (including branches of those entities) operating in host jurisdictions if:

1. There are no host requirements for retail and small business deposits in the particular jurisdictions;
2. Those entities operate in host jurisdictions that have not implemented the LCR; or
3. The Authority decides that home requirements should be used that are stricter than the host requirements.

**Non-consolidated significant investments**

Banks, in conjunction with the Authority, must determine which investments in banking, securities and financial entities of a banking group that are not consolidated should be considered significant, taking into account the liquidity impact of such investments on the group under the LCR requirements.

A non-controlling investment would normally be regarded as significant if the banking group will be the main liquidity provider of such investment in times of stress.

An appropriate methodology for how to quantify such potential liquidity draws for the purpose of calculating the LCR will need to be determined. In particular, those arising from the need to support the investment in times of stress out of reputational concerns.

Where such liquidity draws are not included elsewhere, they should be treated under Item D.23 “*Non-contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities which are not consolidated*”.

The requirements and the appropriate methodology should be discussed and agreed with the Authority in advance.

**Netting**

Netting is restricted to cases where it is specifically permitted in the LCR Standard. For example, derivative cash flows that are subject to the same valid master netting agreement in Item D.1 “Net derivative cash outflows”.

**Relationship to audited financial statements**

The LCR Reporting Form may sometimes require items to be treated in a way that differs from the bank's practice for preparing its financial statements.

**Risk weightings**

Reference to (credit) risk weightings are those used in Form SR-1B for banks incorporated in the Isle of Man.

# High Quality Liquid Assets (HQLA) (sheet 1)

|  |  |
| --- | --- |
| **General and Operational Requirements** | |
| The numerator of the LCR is the "stock of high-quality liquid assets (HQLA)". Under the LCR Standard, banks must hold a stock of unencumbered HQLA to cover the total net cash outflows over a 30-day period under the stress scenario. In order to qualify as HQLA, assets should be liquid in markets during a time of stress and, ideally, be central bank eligible.  There are two categories of assets that can be included in the stock of HQLA. Level 1 HQLA can be included without limit, while Level 2 HQLA can only comprise up to 40% of the overall stock. Level 2 HQLA is divided into two classes, Level 2A HQLA and Level 2B HQLA. Level 2B HQLA can comprise no more than 15% of the total stock of HQLA and must be included within the overall 40% cap on Level 2 HQLA. The methodology for calculating the caps on Level 2 HQLA is covered in “Total Stock of HQLA” Items LA.1 to LA.7.  Assets that can be included in each category are those that the bank is holding on the first day of the stress period (reporting date), irrespective of their residual maturity.  General and operational requirements that these assets should satisfy are set out below in Annexes A and B respectively.  Input as follows:  The “Current Market Value” for HQLA purposes is the highest value for which the asset can be realised, being either of:   1. Repo value (only assets for which a deep and active repo market exists): the maximum amount that would be received under a repo, applying prevailing market values and haircuts; and 2. Sale value: the current bid-price of the asset,   subject to the General and Operational Requirements detailed above and in Annexes A and B. | |
| Level 1 HQLA – Items L.1.1 to L.1.7 | |
| Level 1 HQLA can comprise an unlimited share of the pool and are not subject to a haircut under the LCR. For the purpose of calculating the LCR, Level 1 HQLA in the stock of HQLA must be measured at an amount no greater than their current market value. Level 1 HQLA are limited to the items detailed from L.1.1 to L.1.6. | |
| L.1.1 | **Coins and banknotes**  Notes and coins held by the bank. No haircut required. |
| L.1.2 | **Central bank reserves**  Central bank reserves include banks’ overnight deposits with the central bank, and term deposits with the central bank:   1. that are explicitly and contractually repayable on notice from the bank; or 2. that constitute a loan against which the bank can borrow on a term basis or on an overnight but automatically renewable basis (only where the bank has an existing deposit with the relevant central bank).   For the avoidance of doubt, this includes Sterling denominated reserves held with the Bank of England and US denominated reserves held with any Federal Reserve Bank.  Other term deposits with central banks are not eligible for the stock of HQLA (if the term expires within 30 days, the term deposit should be reflected in the inflows section (Section 4) per Item H.3.1).  No haircut required. |
| L.1.3 | **Marketable securities assigned a 0% risk weight, of which:**  **L.1.3.1 Issued by sovereigns, central banks, PSEs, the Bank for International Settlements, International Monetary Fund, the European Central Bank and European Community, the European Stability Mechanism, the European Financial Stability Facility or eligible MDBs;**  **L.1.3.2 Guaranteed by sovereigns, central banks,** **PSEs,** **the Bank for International Settlements, International Monetary Fund, the European Central Bank and European Community, the European Stability Mechanism, the European Financial Stability Facility or eligible MDBs.**  ***Annex C contains a list of eligible MDBs.***  The following conditions must be satisfied with respect to marketable securities representing claims on or guaranteed by the entities at L.1.3.1. and L.1.3.2:   1. Except for Sterling denominated bonds issued by the UK Government and US Dollar denominated bonds issued by the US Government, securities must be assigned a 0% risk weight under the Isle of Man’s standardised approach to credit risk; 2. Traded in large, deep and active repo or cash markets, characterised by a low level of concentration; 3. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions ; and 4. Not an obligation of a financial institution or any of its affiliated entities. In practice, this means that securities issued by a financial institution (or its affiliates) would not qualify for the stock of HQLA, even where the issuance is government guaranteed. In respect of PSEs, this does not exclude PSE exposures where the PSE:    1. Has a clear public remit; and    2. Is not regulated as a bank.   No haircut required. |
| L.1.4 | **Non-0% risk weighted sovereigns**  Sovereign or central bank debt securities (not eligible for inclusion in Item L.1.3 because of the non-0% risk weight) that are issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank’s home country.  No haircut required. |
| L.1.5 | **Non-0% risk weighted sovereigns**  Domestic sovereign or central bank debt securities issued in foreign currencies(not eligible for inclusion in Items L.1.3 because of the non-0% risk weight) up to the amount of the bank’s stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken.  No haircut required. |
| L.1.6 | **Alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA**  The Authority does not consider that the Isle of Man, UK, or any other Crown Dependency currently meets these criteria. *This Item must be left blank.* |
| L.1.7 | **Total Level 1 HQLA.**  Calculated automatically as the sum of all the above items in this section, for the Haircut Amount only. |
| Level 2 HQLA (maximum 40% of HQLA) | |
| Level 2 HQLA (comprising Level 2A and Level 2B assets) can be included in the stock of HQLA, subject to the requirement that they comprise no more that 40% of the overall stock. Level 2B HQLA must not comprise more than 15% of the total stock of HQLA and must also be included within the overall 40% cap on Level 2 HQLA.  The methods to be used for calculating the 40% cap on Level 2 and the 15% cap on Level 2B HQLA are specified in the LCR Standard. The section below, “Total Stock of HQLA”, items LA.1 to LA.3 details the data to be input by banks in order to undertake these calculations to determine such capped amounts. | |
| Level 2A HQLA – Items L.2A.1 to L.2A.5 | |
| L.2A.1 | **Marketable securities assigned a 20% risk weight, of which:**  **L.2A.1.1 Issued by sovereigns, central banks, PSEs or MDBs;**  **L.2A.1.2 Guaranteed by sovereigns, central banks, PSEs or MDBs.**  The following conditions must be satisfied with respect to marketable securities representing claims on or guaranteed by the entities at L.2A.1.1 and L.2A.1.2:   1. Assigned a 20% risk weight under the Isle of Man’s standardised approach to credit risk; 2. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; 3. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and 4. Not an obligation of a financial institution or any of its affiliated entities. In practice, this means that securities issued by a financial institution (or its affiliates) would not qualify for the stock of HQLA, even where the issuance is government guaranteed. In respect of PSEs, this does not exclude PSE exposures where the PSE:    1. Has a clear public remit; and    2. Is not regulated as a bank.   L.1.4 or L.1.5 may overlap with L.2A.1. In such a case, the assets can be assigned to the Level 1 Item L.1.4 or L.1.5 as appropriate.  15% haircut required. |
| L.2A.2 | **Non-financial corporate debt securities**  Corporate debt securities (including commercial paper) that satisfy all the following conditions:   1. Not issued by a financial institution or any of its affiliated entities; 2. Have a credit rating of at least AA- or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%).   Corporate debt securities (including commercial paper) in this respect include only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge, i.e. these do not include complex structured products or subordinated debt.  15% haircut required. |
| L.2A.3 | **Covered bonds (not self-issued)**  Covered bonds that satisfy all the following conditions:   1. Not issued by the bank itself or any of its affiliated entities; 2. Have a credit rating of at least AA- or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%).   Covered bonds are bonds issued and owned by a bank or mortgage institution and are subject by law to special public supervision designed to protect bondholders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.  15% haircut required. |
| L.2A.4 | **Alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA**  The Authority does not consider that the Isle of Man, UK, or any other Crown Dependency currently meets these criteria. *This Item must be left blank.* |
| L.2A.5 | **Total Level 2A HQLA**  Calculated automatically as the sum of all the above items in this section, for the Haircut Amount only. |
| Level 2B HQLA – Items L.2B.1 to L.2B.8 | |
| Banks must have appropriate systems and measures to monitor and control the potential risk (e.g. credit and market risks) that they could be exposed to in holding these assets. Larger haircuts are applied to the current market value of each Level 2B HQLA held in the stock of HQLA. Level 2B HQLA are limited to the Items detailed from L.2B.1 to L.2B.7. | |
| L.2B.1 | **Residential mortgage backed securities (RMBS)**  RMBS that satisfy all of the following conditions:   1. Not issued by, and the underlying assets have not been originated by, the bank itself or any of its affiliated entities; 2. Have a credit rating of at least AA or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress); 5. The underlying asset pool is restricted to residential mortgages and cannot contain structured products; 6. The underlying mortgages are “full recourse’’ loans (i.e. in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum Loan-to-Value (LTV) of 80% on average at issuance; and 7. The securitisations are subject to “risk retention” regulations which require issuers to retain an interest in the assets they securitise.   25% haircut required. |
| L.2B.2 | **Non-financial corporate debt securities with lower rating**  Corporate debt securities (including commercial paper) that are not included within Level 1 HQLA or Level 2A HQLA and that satisfy all the following conditions:   1. Not issued by a financial institution or any of its affiliated entities; 2. Have a credit rating of at least BBB- or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.   Corporate debt securities (including commercial paper) in this respect include only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge, i.e. these do not include complex structured products or subordinated debt.  50% haircut required. |
| L.2B.3 | **Non-financial common equity shares**  Common equity shares that satisfy all the following conditions:   1. Not issued by a financial institution or any of its affiliated entities; 2. Exchange-traded and centrally cleared; 3. A constituent of the major stock index (or indices) of the jurisdiction where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located; 4. Denominated in pounds sterling or, if held in a branch, in the currency of the jurisdiction where the bank has the branch; 5. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 6. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 40% or increase in haircut over a 30-day period not exceeding 40 percentage points during a relevant period of significant liquidity stress.   50% haircut required. |
| L.2B.4 | **Sovereign and central bank debt securities rated BBB+ to BBB-**  Sovereign and central bank debt securities rated BBB+ to BBB- that are not included within Level 1 HQLA or Level 2A HQLA that satisfy all the following conditions:   1. Not issued by a financial institution or any of its affiliated entities; 2. Have a credit rating of at least BBB- or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.   50% haircut required. |
| L.2B.5 | **Debt securities with a rating of at least BBB-**  PSE debt securities with a rating of at least BBB- that satisfy all the following conditions:   1. Not issued by a financial institution or any of its affiliated entities; 2. Have a credit rating of at least BBB- or equivalent according to the Isle of Man’s standardised approach to credit risk; 3. Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and 4. Have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.   50% haircut required. |
| L.2B.6 | **Undrawn value of a restricted use committed liquidity facility (RCLF)**  The undrawn value of any contractual committed liquidity facility (CLF) provided by a central bank, where this has not already been included in HQLA as an Alternative Liquidity Approach (in items L.1.6, L.2A.4 and L.2B.7, per Annex D), that satisfy all the following conditions:   1. The facility (termed a restricted use committed liquidity facility (RCLF)) must, in normal times, be subject to a commitment fee on the total (drawn and undrawn) facility amount that is at least the greater of:    1. 75 basis points per annum; or    2. At least 25 basis points per annum above the difference in yield on the assets used to secure the RCLF and the yield on a representative portfolio of HQLA after adjusting for any material differences in credit risk; 2. In periods of market-wide stress the commitment fee on the RCLF (drawn and undrawn amount) may be reduced but remain subject to the minimum requirements applicable to CLFs used by countries with insufficient HQLA set out in Annex D and the LCR Standard; 3. The RCLF must be supported by unencumbered collateral of a type specified by the central bank. The collateral must be held in a form which supports immediate transfer to the central bank should the facility need to be drawn and be sufficient (post-haircut) to cover the total size of the facility. Collateral used to support a RCLF cannot simultaneously be used as part of HQLA; 4. Conditional on the bank being assessed as solvent, the RCLF contract must otherwise be irrevocable prior to maturity and involve no other ex post credit decision by the central bank. The commitment period must exceed the 30-day stress period stipulated by the LCR framework.   50% haircut required. |
| L.2B.7 | **Alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA**  The Authority does not consider that the Isle of Man, UK, or any other Crown Dependency currently meets these criteria. *This Item must be left blank.* |
| L.2B.8 | **Total Level 2B HQLA**  Calculated automatically as the sum of all the above items in this section, for the Haircut Amount only. |
| Total Stock of HQLA - Items LA.1 to LA.7 | |
| *Note: The column headings for this section “Total Stock of HQLA” Items LA.1 to LA.7 differ from the previous Items L.1.1 to L.2B.8 in order to reflect the different figures that must be input by banks.*  This section addresses the derivation of the total stock of HQLA including the methods to be used for calculating the 40% cap on Level 2 HQLA and the 15% cap on Level 2B HQLA, as specified in the LCR Standard.  To calculate the caps on Level 2 and Level 2B HQLA, it is necessary to adjust the amount of HQLA to take into account the unwinding of short-term securities financing transactions and collateral swap transactions that involve the exchange of HQLA. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days.  The caps on Level 2 and Level 2B assets is determined after the application of required haircuts, and after taking into account the aforementioned unwinding of such transactions.  The Authority recognises that not all banks will have HQLA which require adjustment to take account of HQLA involved in short-term securities and collateral swap transactions. ***In such cases, the “Unwind Adjustment” will be zero***. Further detail on how to complete this part of the return is below.  To calculate the Total Stock of HQLA both the figures at Items L.1.7 “Total Level 1 HQLA”, L.2A.5 “Total Level 2A HQLA” and L.2B.8 “Total Level 2B HQLA” and those for Items LA.4 “Adjustment for Level 2B 15% cap” and LA.5 “Adjustment for Level 2 40% cap” are required. | |
| LA.1 | **Adjusted Level 1 HQLA**  This item calculates the weighted amount (i.e. after application of any relevant Haircut) of Level 1 HQLA that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 HQLA items (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Annex B “HQLA – Operational Requirements”.  In cases where collateral received in a short-term secured lending or collateral swap transaction would meet the operational requirements if held unencumbered but has been rehypothecated in a short-term secured funding or collateral swap transaction, both transactions must be unwound for the purpose of calculating the adjusted HQLA amounts.  Input as follows:   * No input required for “Weighted HQLA Amount”. This figure will automatically populate from Item L.1.7 “Weighted Amount”. * The “Unwind Adjustment” is the amount that relates to the unwinding of the aforementioned transactions. Where a bank does not have any such transactions the “Unwind Adjustment” should be input as zero. * No input required for “Adjusted HQLA”. This figure will automatically populate to give the amount of Level 1 HQLA after the application of relevant haircuts and “Unwind Adjustment”. |
| LA.2 | **Adjusted Level 2A HQLA**  This item calculates the weighted amount (i.e. after application of relevant haircut) of Level 2A HQLA that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2A HQLA items that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Annex B “HQLA – Operational Requirements”.  In cases where collateral received in a short-term secured lending or collateral swap transaction would meet the operational requirements if held unencumbered but has been rehypothecated in a short-term secured funding or collateral swap transaction, both transactions must be unwound for the purpose of calculating the adjusted HQLA amounts.  Input as follows:   * No input required for “Weighted HQLA Amount”. This figure will automatically populate from Item L.2A.5 “Weighted Amount”. * The “Unwind Adjustment” is the amount that relates to the unwinding of the aforementioned transactions. Where a bank does not have any such transactions the “Unwind Adjustment” should be input as zero. * No input required for “Adjusted HQLA”. This figure will automatically populate to give the amount of Level 2A HQLA after the application of relevant haircuts and “Unwind Adjustment”. |
| LA.3 | **Adjusted Level 2B HQLA**  This item calculates the weighted amount (i.e. after application of relevant haircuts) of Level 2B HQLA that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2B HQLA items that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Annex B “HQLA – Operational Requirements”.  In cases where collateral received in a short-term secured lending or collateral swap transaction would meet the operational requirements if held unencumbered but has been rehypothecated in a short-term secured funding or collateral swap transaction, both transactions must be unwound for the purpose of calculating the adjusted HQLA amounts.  Input as follows:   * No input required for “Weighted HQLA Amount”. This figure will automatically populate from Item L.2B.8 “Weighted Amount”. * The “Unwind Adjustment” is the amount that relates to the unwinding of the aforementioned transactions. Where a bank does not have any such transactions the “Unwind Adjustment” should be input as zero. * No input required for “Adjusted HQLA”. This figure will automatically populate to give the amount of Level 2B HQLA after the application of relevant haircuts and “Unwind Adjustment”. |
| LA.4 | **Adjustment for Level 2B 15% cap**  This item is calculated automatically. The maximum amount of adjusted Level 2B assets is equal to the ratio of 15/85 times the sum of the adjusted amounts of Level 1 and Level 2A assets, or, in cases where the 40% cap is binding, up to a maximum of 1/4 times the adjusted amount of Level 1 assets, both after haircuts have been applied.  It is calculated as the highest of the following:   1. LA.3: (Adjusted Level 2B HQLA) minus 15/85 times the sum of LA.1: (Adjusted Level 1 HQLA) plus LA.2: (Adjusted Level 2A HQLA); 2. LA.3: (Adjusted Level 2B HQLA) minus 15/60 of LA.1: (Adjusted Level 1 HQLA); or 3. Zero (i.e. adjustment may not be negative). |
| LA.5 | **Adjustment for Level 2 40% cap**  This item is calculated automatically. The maximum amount of adjusted Level 2 assets is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied. The calculation of the 40% cap on Level 2 assets takes into account any reduction in eligible Level 2B assets on account of the 15% cap on Level 2B assets.  It is calculated as the highest of the following:   1. The sum of LA.2: (Adjusted Level 2A HQLA) and LA.3: (Adjusted Level 2B HQLA) minus LA.4: (Adjustment for Level 2B 15% cap) minus 2/3 of LA.1: (Adjusted Level 1 HQLA); or 2. Zero (i.e. adjustment may not be negative). |
| LA.6 | **Adjustment for alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA**  The Authority does not consider that the Isle of Man, UK, or any other Crown Dependency currently meets these criteria. *This Item must be left blank.* |
| LA.7 | **Total Stock of HQLA**  The Total Stock of HQLA is calculated automatically as the sum of the Weighted Amounts for L.1.7, L.2A.5 and L.2B.8, minus the sum of LA.4 and LA.5. |

# Cash Outflows[[4]](#footnote-4) (sheet 2)

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| **Item A – Retail Funding (retail deposits)** | |
| Retail deposits are defined as deposits placed with a bank by a natural person. Banks should also report within the appropriate retail deposit categories the value of notes, bonds and other debt securities issued which are sold exclusively to the retail market and held in retail accounts. To be treated in this manner, it is not sufficient that the debt instruments are specifically designed and marketed to retail. Rather there should be limitations placed such that those instruments cannot be bought and held by parties other than retail customers.  Retail deposits reported in Items A.1 to A.5 and A.7 include demand deposits and term deposits maturing in or with a notice period up to 30 calendar days. Retail deposits are divided into “stable” and “less stable” portions of funds as itemised below, with run-off rates listed for each category.  Term deposits with a residual contractual maturity or withdrawal notice period greater than 30 calendar days are treated in accordance with the guidance for Item A.6.  Deposits from non-natural persons (including small businesses) are captured in wholesale deposit categories. | |
| A.1 | **Stable retail deposits: Individuals (3% run-off factor)**  At present the 3% run-off factor is not permitted. *This item must be left blank.* |
| A.2 | **Stable retail deposits: Individuals (5% run-off factor)**  *Note: for the avoidance of doubt, where a deposit meets the criteria specified at Items A.4 or A.5, no part of that deposit, including the portion covered by a DCS, may be included in Item A.2. The total figure for that deposit must be input under Item A.4 or A.5 as applicable.*  This covers:   1. Transactional deposits from individuals (i.e. placed directly by a natural person) where the deposit is either:    1. On demand; or    2. Has an original maturity of one week or less;   and hence can be considered transactional.  OR   1. Non-transactional deposits from individuals (i.e. placed directly by a natural person) including term deposits maturing in or with a notice period up to 30 calendar days where the customer has another established relationship with the bank that makes deposit withdrawal highly unlikely. For a relationship to be an established relationship the depositor must meet at least one of the following criteria:    1. has an active contractual relationship with the credit institution of at least 12 months duration;    2. has a borrowing relationship with the credit institution for residential loans or other long term loans; or    3. has at least one other active product, other than a loan, with the credit institution.   In either (i) or (ii), the deposit is taken in either the Isle of Man or a branch of the bank in the Channel Islands, UK, EU or a jurisdiction where the bank has determined that an equivalent Depositors’ Compensation Scheme (DCS) exists.  Include the lower of the balance deposited by the customer and the compensation limit of the applicable DCS. Any amount exceeding the limit should be included as “less stable” deposits in Item A.3 or A.7 as appropriate.  If a bank is not able to readily identify amounts that qualify as “stable” according to the above definition (e.g. it cannot determine which deposits are covered by the DCS), it should include the full amount as “less stable” deposits in Item A.3 or A.7 as appropriate.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| A.3 | **Less stable retail deposits: Individuals – Category 1 (10% run-off factor)**  Retail deposits from individuals (i.e. placed directly by a natural person) that are not eligible for inclusion as stable retail deposits in Item A.2 and that do not meet the criteria specified at Item A.4 or A.5.  This includes:   1. Deposits that are not covered by a DCS, including the proportion of deposits that exceed the applicable DCS limit; and 2. Deposits where the bank cannot readily identify amounts that qualify as stable, for example the bank cannot determine which deposits are covered by an effective DCS. In such cases the full amount of the deposit must be allocated to a less stable retail deposit category.   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  Where such deposits have been taken in a third jurisdiction where a higher than 10% run-off factor is applied to such deposits, they should be included at Item A.7 *“Deposits in third countries where a higher run-off factor is applied”.* |
| A.4 | **Less stable retail deposits: Individuals – Category 2 (15% run-off factor).**  Retail deposits from individuals (i.e. placed directly by a natural person) that meet point (i) and either point (ii) or point (iii) of the following criteria:   1. The total balance, including all the client’s deposit accounts at that bank or group, exceeds GBP 500,000 (or the GBP equivalent where those deposits are held in another currency); 2. The deposit offers an interest rate that fulfils any of the following conditions:    1. The rate significantly exceeds the average rate for similar retail products;    2. Its return is derived from the return on a market index or set of indices;    3. Its return is derived from any market variable other than a floating interest rate; 3. The deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or the deposit presents a fixed notice period shorter than 30 calendar days, in accordance with contractual arrangements.   *For the avoidance of doubt, the “Amount (adjusted where relevant)” is the total deposits, including the amount covered by any applicable DCS.*  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  Where such deposits have been taken in a third jurisdiction where a higher than 15% run-off factor is applied to such deposits, they should be included at Item A.7 *“Deposits in third countries where a higher run-off rate is applied”.* |
| A.5 | **Retail deposits where the payout has been agreed within the following 30 calendar days: Individuals (100% run-off factor)**  Report here deposits with a residual maturity of less than 30 calendar days where pay-out has been agreed.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| A.6 | **Retail term deposits with a residual maturity greater than 30 calendar days: Individuals (0% run-off factor)**  Retail term deposits from individuals (i.e. placed directly by a natural person) with residual contractual maturity or withdrawal notice period greater than 30 calendar days where:   1. the depositor has no legal right to withdraw deposits within the 30-calendar day horizon of the LCR; or 2. early withdrawal would result in a significant penalty that is materially greater than the loss of interest.   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  *However:*   1. If a bank allows a depositor to withdraw such deposits within 30 calendar days without applying the corresponding penalty or despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds must be treated as either stable or less stable retail deposits (i.e. regardless of the remaining term) depending on their fulfilment of the relevant criteria. The deposits must be included in Items A.2 to A.5 (or if applicable, A.7) as appropriate and subject to the relevant deposit run-off factors for those Items. 2. if a portion of the term deposit can be withdrawn without incurring such a penalty, that portion must be treated as either a stable or less stable retail deposit depending on the fulfilment of relevant criteria and be included in Items A.2 to A.5 (or if applicable, A.7) as appropriate and subject to the relevant deposit run-off factors for those Items. The remaining balance of the deposit should be treated as a term deposit.   Banks may choose to outline exceptional circumstances that would qualify as hardship, under which the term deposit could be withdrawn by the depositor without changing the treatment of the entire pool of deposits. This is subject to supervisory review and must be documented in the bank’s Liquidity Management Policy (LMP). |
| A.7 | **Deposits in third countries where a higher run-off factor is applied**  Retail deposits from individuals (i.e. placed directly by a natural person) taken in a third country (i.e. by a branch or subsidiary of the Isle of Man incorporated bank) where a higher run-off factor is applied in accordance with the national law which sets out liquidity requirements in that third country.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  The run-off factor as specified by the third country must be input under the Column headed “Applied Run-Off Factor”. |
| A.8 | **Total Retail Deposit Outflows**  Calculated automatically as the sum of A.1 to A.7. |
| **Item B – Unsecured Wholesale Funding** | |
| For LCR purposes, deposits from non-natural persons are captured in wholesale deposit categories. This includes small businesses.  Wholesale funding included in the LCR is defined as all funding that is callable within 30 calendar days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This includes all funding with options that are exercisable at the investor's discretion within the 30-calendar day horizon. It also includes funding with options exercisable at the bank's discretion where reputational reasons may limit the bank’s ability not to exercise the option. This could reflect a case where a bank may imply that it is under liquidity stress if it did not exercise an option on its own funding. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, and within the 30-calendar day horizon, banks should assume such behaviour for the purpose of the LCR and include these liabilities in the relevant outflows category.  Wholesale funding that is callable by the provider of the funds subject to a contractually defined and binding notice period surpassing the 30-calendar day horizon is not included. | |
| Items B.1 to B.8 – Small business deposits | |
| Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits from individuals. In addition to deposits, this includes reporting within the appropriate small business categories the amount of notes, bonds and other debt securities issued which are sold exclusively to the retail market or small businesses and held in small business accounts. To be treated in this manner, it is not sufficient that the debt instruments are specifically designed and marketed to retail or small business customers. Rather there should be limitations placed such that those instruments cannot be bought and held by parties other than retail or small business customers.  The treatment effectively distinguishes between a “stable” portion of funding provided by small businesses and “less stable” portions of funds as itemised below, with run-off rates listed for each category. The same categories and associated run-off factors apply as for retail deposits from individuals.  Term deposits from small businesses with a residual contractual maturity or withdrawal notice period greater than 30 calendar days are treated in the same way as for such deposits from individuals. See the guidance for Item B.6 [ref line “Term deposits with a residual maturity greater than 30 calendar days: Non-financial small businesses”]. | |
| B.1 | **Stable deposits: Non-financial small businesses (3% run-off factor)**  At present the 3% run-off factor is not permitted. *This item must be left blank.* |
| B.2 | **Stable deposits: Non-financial small businesses (5% run-off factor)**  *Note: For the avoidance of doubt, where a deposit meets the criteria specified at Items B.4 or B.5, no part of that deposit, including the portion covered by a DCS, may be included in Item B.2. The total figure for that deposit must be input under Item B.4 or B.5 as applicable.*  This covers:   1. Transactional deposits placed directly with the bank by small businesses that are not financial institutions where the deposit is either:    1. On demand; or    2. Has an original maturity of one week or less;   and hence can be considered transactional.  OR,   1. Non-transactional deposits including term deposits maturing in or with a notice period up to 30 calendar days placed directly with the bank by small businesses that are not financial institutions where the customer has another established relationship with the bank that makes deposit withdrawal highly unlikely. For a relationship to be an established relationship the depositor must meet at least one of the following criteria:    1. has an active contractual relationship with the credit institution of at least 12 months duration;    2. has a borrowing relationship with the credit institution for residential loans or other long term loans; or    3. has at least one other active product, other than a loan, with the credit institution.   In either (i) or (ii), the deposit is taken in either the Isle of Man or a branch of the bank in the Channel Islands, UK, EU or a jurisdiction where the Authority has agreed that an equivalent Depositors’ Compensation Scheme (DCS) exists.  Include the lower of the balance deposited by the customer and the compensation limit of the applicable DCS. Any amount exceeding the limit should be included as “less stable” deposits in Item B.3 or B.7 as appropriate.  If a bank is not able to readily identify amounts that qualify as “stable” according to the above definition (e.g. it cannot determine which deposits are covered by the DCS), it should include the full amount as “less stable” deposits in Item B.3 or B.7 as appropriate.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.3 | **Less stable deposits: Non-financial small businesses – Category 1 (10% run-off factor)**  Deposits, placed directly with the bank by small businesses that are not financial institutions, that are not eligible for inclusion as stable deposits from non-financial small businesses in Items B.2 and that do not meet the criteria specified at Item B.4 or B.5.  This includes:   1. Deposits that are not covered by a DCS, including the proportion of deposits that exceed the applicable DCS limit; and 2. Deposits where the bank cannot readily identify amounts that qualify as stable, for example the bank cannot determine which deposits are covered by an effective DCS. In such cases the full amount of the deposit must be allocated to a less stable deposit category.   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  Where such deposits have been taken in a third jurisdiction where a higher than 10% run-off factor is applied to such deposits, they should be included at Item B.7 *“Deposits in third countries where a higher run-off factor is applied”.* |
| B.4 | **Less stable deposits: Non-financial small businesses – Category 2 (15% run-off factor)**  Deposits, placed directly with the bank by small businesses that are not financial institutions that meet point (i) and either point (ii) or point (iii) of the following criteria:   1. The total balance, including all the client’s deposit accounts at that bank or group, exceeds GBP 500,000 (or the GBP equivalent where those deposits are held in another currency); 2. The deposit offers an interest rate that fulfils any of the following conditions:    1. The rate significantly exceeds the average rate for similar products;    2. Its return is derived from the return on a market index or set of indices;    3. Its return is derived from any market variable other than a floating interest rate; 3. The deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or the deposit presents a fixed notice period shorter than 30 calendar days, in accordance with contractual arrangements.   *For the avoidance of doubt, the “Amount (adjusted where relevant)” is the total deposits, including the amount covered by any applicable DCS.*  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  Where such deposits have been taken in a third jurisdiction where a higher than 15% run-off factor is applied to such deposits, they should be included at Item B.7 “Deposits in third countries where a higher run-off factor is applied”. |
| B.5 | **Deposits where the payout has been agreed within the following 30 calendar days: Non-financial small businesses (100% run-off factor)**  Report here deposits with a residual maturity of less than 30 calendar days where pay-out has been agreed.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.6 | **Term deposits with a residual maturity greater than 30 calendar days: Non-financial small businesses (0% run-off factor)**  Term deposits from non-financial small businesses with residual contractual maturity or withdrawal notice period greater than 30 days where:   1. the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR; or 2. early withdrawal would result in a significant penalty that is materially greater than the loss of interest.   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  *However:*   1. If a bank allows a depositor to withdraw such deposits within 30 days without applying the corresponding penalty or despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds must be treated as either stable or less stable deposits (i.e. regardless of the remaining term) depending on their fulfilment of the relevant criteria. The deposits must be included in Items B.2 to B.5 (or if applicable, B.7) as appropriate and subject to the relevant deposit run-off rates for those Items. 2. If a portion of the term deposit can be withdrawn without incurring such a penalty, that portion must be treated as either a stable or less stable deposit depending on the fulfilment of relevant criteria and be included in Items B.2 to B.5 (or if applicable, B.7) as appropriate and subject to the relevant deposit run-off factors for those Items. The remaining balance of the deposit should be treated as a term deposit.   Banks may choose to outline exceptional circumstances that would qualify as hardship, under which the term deposit could be withdrawn by the depositor without changing the treatment of the entire pool of deposits. This is subject to supervisory review and must be documented in the bank’s Liquidity Management Policy (LMP). |
| B.7 | **Deposits in third countries where a higher run-off factor is applied**  Deposits from small businesses taken in a third country (i.e. by a branch or subsidiary of the Isle of Man incorporated bank) where a higher run-off factor is applied in accordance with the national law which sets out liquidity requirements in that third country.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.  The run-off factor as specified by the third country must be input under the Column headed “Applied Run-Off Factor”. |
| B.8 | **Total Small Business Deposit Outflows**  Calculated automatically as the sum of B.1 to B.7. |
| Items B.9 to B.12 – Operational deposits (clearing, custody and cash management) | |
| Certain activities lead to financial and non-financial customers needing to place, or leave, deposits with a bank in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds may receive a 25% (or 5%) run-off rate only if the customer has a substantive dependency with the bank and the deposit is required for such activities. Operational deposits are defined at Annex E. | |
| B.9 | **Unsecured Wholesale Deposits: Operational deposits covered by a DCS and meeting additional criteria for deposit insurance schemes (3% run-off factor)**  At present the 3% run-off factor is not permitted. *This item must be left blank.* |
| B.10 | **Unsecured Wholesale Deposits: Operational deposits covered by a DCS (5% run-off factor).**  Include only operational deposits which meet the Qualifying Criteria detailed in Annex E where:   1. the deposit is taken in either the Isle of Man or a branch of the bank in the Channel Islands, UK, EU or a jurisdiction where the Authority has agreed that a DCS covers such deposits; and 2. the agreement of the Authority has been given for the treatment of such deposits under the operational deposits run-off factor.   Include the lower of the balance deposited by the customer that meets the qualifying criteria of Annex E or the compensation limit of the applicable DCS. Any amount exceeding the limit should be included in Item B.11 or the relevant category of non-operational deposit at Items B.13 to B.14 as appropriate.  Deposits that do not meet the Qualifying Criteria must be treated in the relevant category for non-operational deposits as appropriate.  If a bank is not able to readily identify amounts that qualify according to the above definition (e.g. it cannot determine which deposits are covered by the DCS, or it cannot determine which deposits meet the Qualifying Criteria), it must include the full amount in Item B.11 or the relevant category of non-operational deposit at Items B.13 to B.14 as appropriate.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.11 | **Unsecured Wholesale Deposits: Operational deposits not covered by a DCS (25% run-off factor)**  Include only operational deposits which meet the Qualifying Criteria detailed in Annex E where:   1. the agreement of the Authority has been given for the treatment of such deposits under the operational deposits run-off factor.   Deposits that do not meet the Qualifying Criteria must be treated in the relevant category for non-operational deposits as appropriate.  If a bank is not able to readily identify amounts that qualify according to the above definition (e.g. it cannot determine which deposits meet the Qualifying Criteria), it must include the full amount in the relevant category of non-operational deposit as appropriate.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.12 | **Total Operational Deposits**  Calculated automatically as the sum of B.9 to B.11. |
| Items B.13 to B.15 – Non-financial corporates, sovereigns, central banks, MDBs and PSEs | |
| B.13 | **Unsecured Wholesale Deposits: DCS covered deposits (20% run-off factor), of which:**   * **B.13.1 are from non-financial corporates; and** * **B.13.2 are from sovereigns, central banks, MDBs and PSEs**   Include only deposits and other extensions of unsecured funding from non-financial corporate customers (B.13.1) and (both domestic and foreign) sovereign, central bank, MDB, and PSE customers (B.13.2) that are not eligible for reporting elsewhere (small business or operational deposits), where:   1. the deposit is taken in either the Isle of Man or a branch of the bank in the Channel Islands, UK, EU or a jurisdiction where the Authority has agreed that a DCS covers such deposits; and 2. the entire amount of the deposit is fully covered by such a DCS.   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.14 | **Unsecured Wholesale Deposits: non-DCS covered deposits (40% run-off factor), of which:**   * **B.14.1 are from non-financial corporates; and** * **B.14.2 are from sovereigns, central banks, MDBs and PSEs.**   Include deposits and other extensions of unsecured funding from non-financial corporate customers (B.14.1) and (both domestic and foreign) sovereign, central bank, MDB, and PSE customers (B.14.2) that are not eligible for reporting elsewhere (small business, operational deposits or those eligible for inclusion in Item B.13).  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.15 | **Total Unsecured Wholesale Deposits from Non-Financial Corporates, Sovereigns, Central Banks, MDBs and PSEs**  Calculated automatically as the sum of B.13 and B.14. |
| Items B.16 to B.17 – Other legal entity customers | |
| B.16 | **Unsecured wholesale funding provided by other legal entity customers (100% run-off factor), of which:**   * **B.16.1 are from other banks; and** * **B.16.2 are from other financial institutions and other legal entities.**   Include deposits and other funding that is not eligible for reporting elsewhere. B.16.2 includes deposits and funding from: securities firms; insurance companies; asset management or similar entities (such as pension funds, collective investment vehicles or any other firms authorised to managed assets on behalf of a third party); conduits and special purpose vehicles; affiliated entities of the bank[[5]](#footnote-5); and any other entities not already included elsewhere.  All notes, bonds and other debt securities issued by the bank must be included in this category regardless of the holder unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customer accounts treated as retail). In which case the instruments may be treated in the appropriate retail or small business customer deposit category in Items A.1 to A.7 and Items B.1 to B.7.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| B.17 | **Total Unsecured Wholesale Funding from Other Legal Entity Customers**  Calculated automatically as the sum of B.16.1 and B.16.2. |
| Item B.18 – Total Unsecured Wholesale Funding | |
| B.18 | **Total Unsecured Wholesale Funding Outflows**  Calculated automatically as the sum of B.8, B.12, B.15 and B.17. |
| **Item C – Secured Wholesale Funding** | |
| For LCR purposes, “secured funding” is defined as those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Unless the counterparty is a central bank, secured funding does not include transactions collateralised by assets that are not tradeable in financial markets such as property, plant and equipment.  The following Items should be used to report maturing transactions, including repurchase, reverse repurchase, and other securities financing transactions backed by HQLA.  Collateral swaps should be treated as repurchase or reverse repurchase agreements, as must any other transaction with a similar form.  Additionally, collateral lent to a bank’s customers to effect short[[6]](#footnote-6) positions should be treated as a form of secured funding. For such transactions, customer short positions that do not have a specified contractual maturity must be included as arising within the 30-calendar day stress horizon.  The amount of outflow must be calculated based on the amount of funds raised through the transaction, and not the value of the underlying collateral.  The run-off factor for each transaction should be the haircut applying according to the HQLA requirements. | |
| C.1 | **Secured funding transactions with a central bank counterparty or backed by Level 1 HQLA with any counterparty (0% run-off factor), of which:**   * **C.1.1 Secured funding transactions with a central bank counterparty** * **C.1.2 Secured funding transactions backed by Level 1 HQLA with any counterparty**   Due to the high quality of Level 1 HQLA, no reduction in funding availability against these assets is assumed to occur.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |

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| C.2 | **Secured funding transactions backed by Level 2A HQLA, with any counterparty (15% run-off factor)**  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| C.3 | **Secured Funding Transactions with domestic sovereign, PSEs or MDBs that are not backed by Level 1 or Level 2A HQLA (25% run-off factor)**  PSEs that receive this treatment should be limited to those that are 20% risk weighted or better under the Isle of Man’s standardised approach to credit risk.  This treatment may only be applied to outstanding secured funding transactions. Unused collateral or merely the capacity to borrow, as determined as the end of the day for the reporting date, must not be given any credit in this treatment.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| C.4 | **Backed by Residential Mortgage-Backed Securities (RMBS) eligible for inclusion in Level 2B HQLA (25% run-off factor)**  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| C.5 | **Backed by other Level 2B HQLA (50% run-off factor)**  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| C.6 | **All other secured funding transactions (100% run-off factor)**  This Item should be used to report all other maturing secured transactions. This includes transactions where the bank has satisfied customers’ short positions with its own long inventory.  All secured transactions maturing within 30 days should be reported according to the collateral actually pledged as of close of business on the LCR measurement date. If the bank pledges a pool of assets and cannot determine which specific assets in the collateral pool are used to collateralise the transactions with a residual maturity greater than 30 days, it may assume that assets are encumbered to these transactions in order of increasing liquidity value, consistent with the methodology set out in Annex B “HQLA – Operational Requirements”, in such a way that assets with the lowest liquidity value in the LCR are assigned to the transactions with the longest residual maturities first.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| C.7 | **Total Secured Wholesale Funding Outflows**  Calculated automatically as the sum of C.1.1, C.1.2, C.2, C.3, C.4, C5, and C.6. |
| Item C.8 – Total Wholesale Funding | |
| C.8 | **Total Wholesale Funding Outflows**  Calculated automatically as the sum of B.18 (Unsecured Wholesale Funding) and C.7 (Secured Wholesale Funding). |
| **Item D – Cash Outflows – Additional Requirements** | |
| Item D.1 – Derivative Cash Outflows | |
| D.1 | **Net derivative cash outflows (100% run-off factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” for each derivative instrument is any outflow across the 30 day period, calculated on a net basis (i.e. inflows can offset outflows) by counterparty, provided that a valid master netting agreement exists.   Banks should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or declines in value of collateral posted. Options that can be exercised within the next 30 days, including options that expire in greater than 30 days, must be assumed to be exercised when they are ‘in the money’ to the option buyer.  For transactions involving a delivery obligation that can be fulfilled with a variety of asset classes, delivery of the least valuable asset possible (“cheapest to deliver”) must be assumed. This should apply symmetrically to both the inflow and outflow perspective, such that the obligor is assumed to deliver the security with the lowest liquidity value. Cash flows arising from foreign exchange derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected as a net cash flow figure, even where those transactions are not covered by a master netting agreement.  Where derivative payments are collateralised by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the bank, if the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |

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| Items D.2 to D.11 – Increased Liquidity Needs and Loss of Funding | |
| D.2 | **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts (100% run-off factor)**  For each contract in which “downgrade triggers” exist, the bank must assume that 100% of this additional collateral or cash outflow must be posted for any downgrade up to and including a 3-notch downgrade of the bank’s long-term credit rating.  “Downgrade triggers” refer to contracts governing derivatives and other transactions that have clauses which require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the bank’s downgrade by a recognised credit rating organisation.  Triggers linked to a bank’s short-term rating should be assumed to be triggered at the corresponding long-term rating in accordance with published ratings criteria.  The impact of the downgrade must consider impacts on all types of margin collateral and contractual triggers which change rehypothecation rights for non-segregated collateral.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the additional collateral or cash flow that must be posted for any downgrade up to and including a 3-notch downgrade of the bank’s long term credit rating. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.3 | **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions: Level 1 HQLA (0% run-off factor)**  A 0% run-off factor will apply where counterparties in a derivatives transaction use Level 1 liquid asset securities (including cash or sovereign, central bank, MDBs, or PSE debt securities with a 0% risk weight under the Isle of Man’s standardised approach to credit risk) to secure the mark to market valuation of their positions.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the notional amount after the application of any other haircuts applicable to the collateral category. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |

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| D.4 | **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions: Non-Level 1 HQLA (20% run-off factor)**  Where counterparties use other forms of collateral to secure the mark-to-market value of the exposure, to cover potential loss of market value on those securities, a run-off factor equivalent to 20% of the value of all such non-level 1 posted collateral net of collateral received on a counterparty basis (provided such collateral is not subject to restrictions on reuse or rehypothecation) must be added to the stock of required HQLA by the bank posting such collateral.  This 20% must be calculated based on the notional amount required to be posted as collateral after any other haircuts have been applied that may be applicable to the collateral category. Any collateral that is in a segregated margin account may only be used to offset outflows that are associated with payments that are eligible to be offset from that same account. No other form of netting (e.g. netting of offsetting collateral flows across counterparties) is permissible when calculating this outflow amount.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the notional amount after the application of any other haircuts applicable to the collateral category. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.5 | **Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty (100% run-off factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the non-segregated collateral (i.e. where the collateral is unencumbered and included in the stock of HQLA or where a recall of collateral by the counterparty would need to use additional funding) that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty’s current collateral requirements. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.6 | **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted (100% run-off factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.7 | **Increased liquidity needs related to contracts that allow collateral substitution without the bank’s consent to non-HQLA assets (100% run-off factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the amount of non-segregated HQLA collateral that can be substituted with non-HQLA assets without the bank’s consent.   For substitution of HQLA with other HQLA of a lower liquidity value, the outflow should be measured based on the difference between the LCR haircuts of the collateral currently held and the potential substitute collateral. If the substituted collateral can be of different liquidity value in the LCR, the outflow must be measured based on the potential substitute collateral with the lowest liquidity value. HQLA collateral held that remains unencumbered but is excluded from the bank's stock of HQLA due to the operational requirements may be excluded from this outflow amount.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.8 | **Increased liquidity needs related to market valuation changes on derivative or other transactions**  As market practice requires collateralisation of mark-to-market exposures on derivative and other transactions, banks face potentially substantial liquidity risk exposures to these valuation changes.  Rather than applying a run-off factor, outflow generated by increased needs related to market valuation changes must be included in the LCR calculated by identifying the largest absolute net 30-day collateral flow realised during the preceding 24 months.  The absolute net collateral flow is based on both realised outflows and inflows.  Inflows and outflows of transactions executed under the same master netting agreement can be treated on a net basis.  *Banks need only recalculate this for each prudential reporting period, maintaining this value for all internal monitoring until next recalculated.*  The “largest absolute net 30-day collateral flow” means the largest aggregated cumulative net collateral outflow or inflow at the end of all 30-day periods during the preceding 24 months. Netting should be considered on a portfolio-level basis.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the largest absolute net 30-day collateral flow realised during the preceding 24 months. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.9 | **Loss of funding on asset-backed securities, covered bonds and other structured financing instruments (100% run-off factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the amount of funding transactions maturing within the 30-day period, when these instruments are issued by the bank itself. The re-financing market is assumed to not exist.   This outflow may be offset against HQLA that would become unencumbered and available upon the maturity of the instrument. Any surplus of the liquidity value of HQLA that would become unencumbered over redemption value for the maturing securities may be recognised as an inflow under Item I.4 of Section 4 (sheet 3). Any inflows representing Level 2 HQLA must reflect the market value reduced by, at a minimum, the respective LCR haircut.  To the extent that sponsored conduits / special purpose entities are required to be consolidated under liquidity requirements, their assets and liabilities will be taken into account.  Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.10 | **Loss of funding on asset-backed commercial paper (ABCP), conduits, securities investment vehicles and other such financing facilities (100% of maturing amount and 100% of returnable assets)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the maturing amount and the returnable assets.   Banks having structured financing facilities that include the issuance of short-term debt instruments, such as asset-backed commercial paper, must fully consider the potential liquidity risk arising from these structures. These risks include, but are not limited to:   1. the inability to refinance maturing debt; and, 2. the existence of derivatives or derivative-like components contractually written into the documentation associated with the structure that would effectively allow the financing arrangement to be ended (“liquidity puts”) within the 30-day period (such as measures that permit the “return” of assets in a financing arrangement, or that require the original asset transferor to provide liquidity).   Where the structured financing activities of a bank are conducted through a special purpose entity[[7]](#footnote-7) (SPE) such as a special purpose vehicle, conduit or structured investment vehicle, the bank must, in determining the HQLA requirements, look through to the maturity of the debt instruments issued by the entity and any embedded options in financing arrangements that may potentially trigger the “return” of assets or the need for liquidity, whether or not the special purpose vehicle is consolidated, as set out in the table below:   |  |  | | --- | --- | | **Potential Risk Element** | **HQLA required** | | Debt maturing within the calculation period | 100% of maturing amount | | Embedded options in financing arrangements that allow for the return of assets or potential liquidity support | 100% of the amount of assets that could potentially be returned, or the liquidity required |   Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.11 | **Total Increased Liquidity Needs and Loss of Funding**  Calculated automatically as the sum of D.2 to D.10. |

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| Items D.12 to D.19 – Committed Credit and Liquidity Facilities | |
| Committed credit and liquidity facilities are defined at and should be treated in accordance with Annex F.  Any contractual loan drawdowns from committed facilities (i.e. those which are irrevocable) and estimated drawdowns from revocable facilities within the 30-day period must be fully reflected as outflows as set out below. | |
| D.12 | **Undrawn committed credit and liquidity facilities to retail (i.e. natural persons) and small business customers (5% run-off factor)**  A 5% drawdown of the undrawn portion of these facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. For committed credit and liquidity facilities to retail and small business customers, it is not expected that HQLA will be posted. This figure will therefore normally equal that of the “Pre-Adjusted Amount”. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.13 | **Undrawn committed credit facilities (10% run-off factor), of which:**  **D.13.1 are to non-financial corporates; and**  **D.13.2 are to sovereigns and central banks, PSEs and MDBs**  A 10% drawdown of the undrawn portion of these credit facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.14 | **Undrawn committed liquidity facilities (30% run-off factor), of which:**  **D.14.1 are to non-financial corporates; and**  **D.14.2 are to sovereigns and central banks, PSEs and MDBs**  A 30% drawdown of the undrawn portion of these liquidity facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.15 | **Undrawn committed credit and liquidity facilities extended to banks subject to prudential supervision (40% run-off factor)**  A 40% drawdown of the undrawn portion of these facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| D.16 | **Undrawn committed credit facilities to other financial institutions, including securities firms, insurance companies, asset management or similar entities (such as pension funds, collective investment vehicles or any other firms authorised to manage assets on behalf of a third party) (40% run-off factor).**  A 40% drawdown of the undrawn portion of these credit facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.17 | **Undrawn committed liquidity facilities to other financial institutions, including securities firms, insurance companies, asset management or similar entities (such as pension funds, collective investment vehicles or any other firms authorised to manage assets on behalf of a third party) (100% run-off factor).**  A 100% drawdown of the undrawn portion of these liquidity facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.18 | **Undrawn committed credit and liquidity facilities to other legal entities (including SPEs (as defined at D.10 and the applicable footnote), conduits and special purpose vehicles, and other entities not included in the prior categories) (100% run-off factor).**  A 100% drawdown of the undrawn portion of these facilities is assumed to occur.  Input as follows:   * The “Pre-Adjusted Amount” is the amount of the undrawn facility regardless of any facility maturity date. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” net of posted HQLA. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.19 | **Total Committed Credit and Liquidity Facilities**  Calculated automatically as the sum of D.12 to D.18. |
| Items D.20 to D.22 – Contractual obligations to extend funds within a 30-day period | |
| D.20 | **Contractual obligations to extend funds to financial institutions within a 30-day period (100% run-off factor)**  Report any contractual lending obligations to financial institutions, including central banks, not captured in any other categories.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the contractual lending obligation. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.21 | **Contractual obligations to extend funds to retail and non-financial wholesale (e.g. including small or medium-sized entities and other corporates, sovereigns, MDBs and PSEs) (100% run-off factor)**  If the total of all contractual obligations to extend funds to retail and non-financial wholesale clients within the next 30 calendar days (not captured in other categories) exceeds 50% of the total contractual inflows due in the next 30 calendar days from these clients (as per Cash Inflow Items H.1 and H.2 of Sheet 3), the difference is effectively reported as an outflow of 100%.  Input as follows:   * The “Pre-Adjusted Amount” is the total of all contractual obligations to extend funds to retail and non-financial wholesale clients within the next 30 calendar days. * The “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” less 50% of sum of the relative Cash Inflow Items at H.1 and H.2 of Sheet 3 under the column “Amount (adjusted where relevant)” (i.e. before application of the Inflow Factor) due in the next 30 calendar days from such clients. This cell will automatically populate using Items H.1 and H.2 and should not be completed manually. * The “Outflow after Applied Run-off Factor” will automatically populate where the figure under “Amount (adjusted where relevant)” is greater than 0. Where the figure under “Amount (adjusted where relevant)” is 0 or less the “Outflow after Applied Run-off Factor” will be 0. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.22 | **Total Contractual Obligations to Extend Funds Within a 30-day Period -**  Calculated automatically as the sum of D.20 and D.21. |
| Items D.23 to D.31 – Other contingent funding obligations | |
| These contingent funding obligations may be either contractual or non-contractual and are not lending commitments. Non-contractual contingent funding obligations include associations with, or sponsorship of, products sold, or services provided that may require the support or extension of funds in the future under stressed conditions. Non-contractual obligations may be embedded in financial products and instruments sold, sponsored, or originated by the institution that can give rise to unplanned balance sheet growth arising from support given for reputational risk considerations. These include products and instruments for which the customer or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy customer expectations in a commercially reasonable manner would likely cause material reputational damage to the institution or otherwise impair ongoing viability.  Some of these contingent funding obligations are explicitly contingent upon a credit or other event that is not always related to the liquidity events simulated in the stress scenario but may nevertheless have the potential to cause significant liquidity drains in times of stress. | |
| D.23 | **Non-contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities which are not consolidated (100% run-off factor)**  These should be captured where there is the expectation that the bank will be the main liquidity provider when the entity is in need of liquidity.  Input as follows:   * The “Pre-Adjusted Amount” is the total potential funding obligation that could be provided by the bank (drawn by the counterparty) within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.24 | **Trade finance related obligations (5% run-off factor)**  Trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services. Amounts to be reported here include:   1. documentary trade letters of credit, documentary and clean collection, import bills, and export bills; and 2. guarantees directly related to trade finance obligations, such as shipping guarantees.   Lending commitments, such as direct import or export financing for non-financial corporate firms, must be excluded from this treatment and must be reported within Items D.12 to D.18.  Input as follows:   * The “Pre-Adjusted Amount” is the total obligation that could be drawn within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.25 | **Unconditionally revocable “uncommitted” credit and liquidity facilities**  Input as follows:   * The “Pre-Adjusted Amount” is the total undrawn amount of the facility that could be drawn within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.   The standard run-off factor is 0%. The Authority may, in certain circumstances, require a higher run-off factor be applied. In such cases, banks must input the agreed run-off factor for this Item under the column headed “Applied Run-Off Factor”. |
| D.26 | **Guarantees and letters of credit unrelated to trade finance obligations** (as described in Item D.24).  Input as follows:   * The “Pre-Adjusted Amount” is the total obligation that could be drawn within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.   The standard run-off factor is 0%. The Authority may, in certain circumstances, require a higher run-off factor be applied. In such cases, banks must input the agreed run-off factor for this Item under the column headed “Applied Run-Off Factor”. |
| D.27 | **Non-contractual obligations**  Non-contractual obligations such as:   1. potential requests for debt repurchases of the bank’s own debt or that of related conduits, securities investment vehicles and other such financing facilities; 2. structured products where customers anticipate ready marketability, such as adjustable rate notes and variable-rate demand notes; and 3. managed funds that are marketed with the objective of maintaining a stable value such as money market mutual funds or other types of stable value collective investment funds etc; 4. any other non-contractual obligations not already included.   Input as follows:   * The “Pre-Adjusted Amount” is the total obligation that could be drawn within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically.   The standard run-off factor is 0%. The Authority may, in certain circumstances, require a higher run-off factor be applied. In such cases, banks must input the agreed run-off factor for this Item under the column headed “Applied Run-Off Factor”. |
| D.28 | **Outstanding debt securities with remaining maturity greater than 30 days (100% run-off factor)**  For issuers with an affiliated dealer or market-maker, there may be a need to include an amount of the outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than 30 calendar days, to cover the potential repurchase of such outstanding securities.  Input as follows:   * The “Pre-Adjusted Amount” is the total potential repurchase amount that could be required to be made within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where it would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.29 | **Non-contractual obligations where customer short positions are covered by other customers’ collateral (50% run-off factor)**  A 50% run-off factor of the contingent obligations must be applied where banks have internally matched client assets against other clients’ short positions where the collateral does not qualify as Level 1 or Level 2, and the bank may be obligated to find additional sources of funding for these positions in the event of client withdrawals.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the total potential obligation (additional funding) that could be required within the 30-day period. * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.30 | **Other contractual cash outflows (including those related to unsecured collateral borrowings and uncovered short positions) (100% run-off factor)**  Any other contractual cash outflows within the next 30 calendar days should be captured in this Item such as outflows to cover unsecured collateral borrowings, uncovered short positions, dividends or contractual interest payments.  The Authority may ask banks to provide an explanation as to what comprises the amounts included in this Item.  Outflows related to operating costs, however, are not included in the LCR.  Input as follows:   * The “Pre-Adjusted Amount” is the total amount that could be required to be paid away within the 30-day period. * The “Amount (adjusted where relevant)” is normally equivalent to the “Pre-Adjusted Amount”, except for the unusual circumstances where it would require the provision of collateral in the form of HQLA (see section on Committed Credit and Liquidity Facilities, Items D.12 to D.18 and Annex F). * Figures must be provided by jurisdiction. Aggregate figures will be calculated automatically. |
| D.31 | **Total Other Contingent Funding Obligations**  Calculated automatically as the sum of D.23 to D.30. |
| Item D.32 – Total Cash Outflows – Additional Requirements | |
| D.32 | **Total Cash Outflows – Additional Requirements**  Calculated automatically as the sum of D.1, D.11, D.19, D.22 and D.31. |
| **Item E – Total Cash Outflows** | |
| E.1 | **Total Cash Outflows**  Calculated automatically as the sum of A.8, C.8, and D.32. |

# Cash Inflows[[8]](#footnote-8) (sheet 3)

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| --- | --- |
| **General Information** | |
| When considering its available cash inflows, the bank must only include contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which the bank has no reason to expect a default within the 30-day time horizon.  Contingent inflows, including facilities obtained from a central bank or other party, should **not** be included in total net cash inflows.  Banks should monitor the concentration of expected inflows across wholesale counterparties in the context of banks’ liquidity management in order to ensure that their liquidity position is not overly dependent on the arrival of expected inflows from one or a limited number of wholesale counterparties.  To prevent banks from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in the standard. This requires that a bank must maintain a minimum amount of stock of HQLA equal to 25% of the total cash outflows.  Items must not be double counted. If an asset is included as part of the stock of HQLA (i.e. the numerator) the associated cash inflows cannot also be counted as cash inflows (i.e. part of the denominator).  Inflows may be excluded by a bank if the effort required to compute them on an accurate reliable basis is considered to outweigh the benefit of including them (a conservative approach). Such exclusions should be documented in the bank’s Liquidity Management Policy.  Under the LCR, cash inflows are broken down into four broad categories, described in further detail below:   1. Secured lending inflows; 2. Inflows related to committed facilities; 3. Inflows from specified counterparties; and 4. Other cash inflows. | |
| **Item F - Secured lending inflows, including reverse repos and securities borrowing** | |
| Secured lending is defined as those loans that the bank has extended and are collateralised by legal rights to specifically designated assets owned by the borrowing institution, which the bank may use or rehypothecate for the duration of the loan, and for which the bank can claim ownership to in the case of default by the borrower. | |
| F.1 | **Maturing secured lending transactions backed by the following asset categories (set out in F.1.1 to F.1.7):**  The inflow factor for each of F.1.1 to F.1.7 depends on the nature of the deal and on the collateral posted.  For each of F.1.1 to F.1.7 input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” for each Item is the total value of all cashflows falling due within the next 30 days, including interest payments. * Figures must be provided by jurisdiction for each Item F.1.1 to F.1.7. The aggregate figures will be calculated automatically.   ***F.1.1 backed by Level 1 assets (0% inflow factor)***  It is assumed that maturing reverse repurchase or securities borrowing agreements secured by Level 1 assets will be rolled-over and will not give rise to any cash inflows. Note that the security held versus these deals is counted within HQLA and hence this is consistent with the “no double-counting” principle.  ***F.1.2 backed by Level 2A assets (15% inflow factor)***  ***F.1.3 backed by Level 2B assets: eligible residential mortgage-backed securities (RMBS) (25% inflow factor)***  ***F.1.4 backed by all other Level 2B assets (50% inflow factor)***  Maturing reverse repurchase or securities borrowing agreements secured by Level 2 HQLA must lead to cash inflows equivalent to the relevant haircut for the specific assets. Note that the security held versus these deals is counted within HQLA after deducting the haircut and hence, in total, this fully reflects the value of the asset, consistent with the “no double-counting” principle.  ***F.1.5 Other collateral (100% inflow factor)***  It is assumed that maturing reverse repurchase or securities borrowing agreements secured by non-HQLA assets will not be rolled over, and 100% of the cash related to those agreements is assumed to be received back.  However, there are two special cases as set out in F.1.6 and F.1.7:  ***F.1.6 Margin lending backed by all other collateral (50% inflow factor)***  Collateralised loans extended to customers for the purpose of taking leveraged trading positions (“margin loans”) must also be considered as a form of secured lending; however, for this scenario banks must not recognise more than 50% of contractual inflows from maturing margin loans made against non-HQLA collateral. This treatment is in line with the assumptions outlined for secured funding in the general guidance at Item C (and the guidance for Items C.6 and D.29) of Section 3, Cash Outflows.  ***F.1.7 Collateral is used to cover short positions (0% inflow factor)***  If the collateral obtained through reverse repos, securities borrowing, or collateral swaps, which matures within the 30-day horizon, is re-used (i.e. rehypothecated) and is used to cover short positions that could be extended beyond 30 days, a bank should assume that such reverse repo or securities borrowing arrangements will be rolled-over and not give rise to any cash inflows, reflecting its need to continue to cover the short position or to re-purchase the relevant securities. In these cases, the short position should be treated symmetrically and not give rise to any outflows.  Short positions include both instances where in its “matched book” the bank sold short a security outright as part of a trading or hedging strategy and instances where the bank is short a security in the “matched” repo book (i.e. it has borrowed a security for a given period and lent the security out for a longer period).  Short positions must be evaluated at the end of the calculation date; the ability to substitute collateral in the transaction creating the short position must not be considered in determining the inflow rate of the secured lending transaction.   |  |  |  | | --- | --- | --- | | **Maturing secured lending transactions backed by the following asset category** | **Inflow factor (if collateral is not used to cover short positions)** | **Inflow factor (if collateral is used to cover short positions)** | | Level 1 assets | 0% | 0% | | Level 2A assets | 15% | 0% | | Level 2B assets: eligible RMBS | 25% | 0% | | Level 2B assets: all other | 50% | 0% | | Margin lending backed by all other collateral | 50% | 0% | | Other collateral | 100% | 0% |   *Note: In the case of a bank’s short positions, if the short position is being covered by an unsecured security borrowing, the bank should assume the unsecured security borrowing of collateral from financial market participants would run-off in full, leading to a 100% outflow of either cash or HQLA to secure the borrowing, or cash to close out the short position by buying back the security. This must be recorded as a 100% outflow at Item D.30 “Other contractual cash outflows”. If, however, the bank’s short position is being covered by a collateralised securities financing transaction, the bank must assume the short position will be maintained throughout the 30-day period and apply a 0% outflow.* |
| F.2 | **Total Secured Lending Inflows including reverse Repos and Securities**  Calculated automatically as the sum of F.1.1 to F.1.7, both by jurisdiction at F.2.1 to F.2.5 and in aggregate. |
| **Item G – Committed Facilities** | |
| G.1 | **Committed facilities (0% inflow factor)**  No credit facilities, liquidity facilities or other contingent funding facilities that the bank holds at other institutions for its own purposes are assumed to be able to be drawn. Such facilities must receive a 0% inflow rate, meaning that this scenario does not consider inflows from committed credit or liquidity facilities.  This is to reduce the contagion risk of liquidity shortages at one bank causing shortages at other banks and to reflect the risk that other banks may not be in a position to honour credit facilities or may decide to incur the legal and reputational risk involved in not honouring the commitment, in order to conserve their own liquidity or reduce their exposure to that bank.  Where banks have been granted access to contractual liquidity facilities provided by a central bank these should be reported as HQLA at L.2B.6 and hence should not be reported here.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the amount of committed facilities that the bank holds at other institutions for its own purposes that could be drawn within the 30-day time horizon. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| **Item H – Other Inflows by Counterparty** | |
| For all other types of transactions, either secured or unsecured, the inflow rate must be determined by counterparty. To reflect the need for a bank to conduct ongoing loan origination/roll-over with different types of counterparties, even during a time of stress, a set of limits on contractual inflows by counterparty type must be applied.  Regarding financial institutions, the bank may generally assume a complete return of liquidity from such institutions, provided the funds are not supporting operational activities as described in Item H.4 and Annex E. These assumptions may cover both loans and other placements (e.g. non-operational deposits).  When considering loan payments, the bank must only include inflows from fully performing loans. Further, inflows must only be taken at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, a bank must assume that the existing loan is rolled over and that any remaining undrawn balances are treated in the same way as a committed facility according to Items D.12 to D.18.  Inflows from loans that have no specific maturity (i.e. have non-defined or open maturity) must be excluded; therefore, a bank must not make assumptions as to when maturity of such loans would occur. This treatment must also apply to loans that can be contractually terminated within 30 days, as any inflows exceeding those according to the regular amortisation schedule would be “contingent” (in terms of a possible cancellation of the loan) in nature.  As an exception to this approach, banks may include minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed in Items H.1 to H.5. | |
| H.1 | **Amounts to be received from retail and small business customers (50% inflow factor), of which:**   * **H.1.1 received from retail customers (Individuals)** * **H.1.2 received from small business customers**   Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is all payments in respect of borrowing that meets the rules for the definition of “retail exposures” according to the Isle of Man’s standardised approach to credit risk (including interest payments and instalments) from retail and small business customers that are fully performing and contractually due within the 30-day horizon. * Banks must assume to continue to extend loans to retail and small business customers, at a rate of 50% of contractual inflows, which results in an inflow of 50% of the contractual amount. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| H.2 | **Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in above inflow categories (50% inflow factor), of which:**   * **H.2.1 are from non-financial corporates** * **H.2.2 are from sovereigns, MDBs and PSEs**   Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is all payments (including interest payments and instalments) from the relevant wholesale customers that are fully performing and contractually due within the 30-day horizon. * Banks must assume to continue to extend loans to non-financial wholesale clients including non-financial corporates, sovereigns, MDBs, and PSEs at a rate of 50%, which results in an inflow of 50% of the contractual amount. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| H.3 | **Amounts to be received from financial institutions, (including from group banks), and central banks, from transactions other than those listed in above inflow categories (100% inflow factor), of which:**   * **H.3.1 are from central banks** * **H.3.2 are from non-bank financial institutions** * **H.3.3 are from group banks** * **H.3.4 are from other banks.**   Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is all payments (including interest payments and instalments) from the relevant wholesale customers that are fully performing and contractually due within the 30-day horizon. * Banks must assume to continue to extend loans to financial institutions and central banks at a rate of 0% of inflows, which results in an inflow of 100% of the contractual amount. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| H.4 | **Operational deposits held at other financial institutions (including with group banks) (0% inflow factor), of which:**   * **H.4.1 are held at group banks** * **H.4.2 are held at other financial institutions.**   Deposits held at other financial institutions for operational purposes, as outlined in Annex E, such as for clearing, custody, and cash management purposes, must be assumed to stay at those institutions and should receive a 0% inflow factor. The same methodology applied in Annex E for operational deposit outflows should also be applied to determine if deposits held at another financial institution are operational deposits and receive a 0% inflow factor.  As a general principle if the bank receiving the deposit classifies the deposit as operational, the bank placing it should also classify it as an operational deposit.  Notwithstanding the exclusion of deposit liabilities raised from correspondent banking activities from the treatment of operational deposits, as described in Annex E, deposits placed for the purpose of correspondent banking are held for operational purposes and, as such, must receive a 0% inflow factor.  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is all inflows due from operational deposits (see Annex E) placed with counterparty banks that mature in the next 30 days. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| H.5 | **Excess balances of operational deposits held at other financial institutions (including with group banks) (100% inflow factor), of which:**   * **H.5.1 are held at group banks** * **H.5.2 are held at other financial institutions.**   Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” is the amount for which the bank is able to determine that the funds are “excess balances” in the sense of Annex E, i.e. they are not tied to operational purposes and may be withdrawn within 30 days. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| H.6 | **Total Other Inflows by Counterparty**  Calculated automatically as the sum of H.1 to H.5, both by jurisdiction and in aggregate. |
| **Item I – Other Cash Inflows** | |
| I.1 | **Net derivative cash inflows (100% inflow factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” for each derivative instrument is any inflow across the 30-day period, calculated on a net basis (i.e. inflows can offset outflows) by counterparty, provided that a valid master netting agreement exists. * Banks should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or declines in value of collateral posted. Options that can be exercised within the next 30 days, including options that expire in greater than 30 days, must be assumed to be exercised when they are ‘in the money’ to the option buyer. * For transactions involving a delivery obligation that can be fulfilled with a variety of asset classes, delivery of the least valuable asset possible (“cheapest to deliver”) must be assumed. This should apply symmetrically to both the inflow and outflow perspective, such that the obligor is assumed to deliver the security with the lowest liquidity value. Cash flows arising from foreign exchange derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected as a net cash flow figure, even where those transactions are not covered by a master netting agreement. * Where derivatives are collateralised by HQLA, cash inflows should be calculated net of any corresponding cash or contractual collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted by the bank, given these contractual obligations would reduce the stock of HQLA. This is in accordance with the principle that banks should not double count liquidity inflows and outflows. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| I.2 | **Maturing securities (100% inflow factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” comprises inflows from securities maturing within 30 days not included in the stock of HQLA. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| I.3 | **Release of balances held in segregated accounts for the protection of customer trading assets (100% inflow factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” comprises inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA. This inflow must be calculated in line with the treatment of other related outflows and inflows covered in this guidance. * Level 1 and Level 2 assets maturing within 30 days must be included in the stock of HQLA and must not be considered as inflows, provided that they meet all operational and definitional requirements as laid out in Section 2 (HQLA) and Annexes A and B. * Payments arising from Level 1 and Level 2 assets which settle within 30 days that do not meet the operational requirements may be considered as inflows. * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| I.4 | **Other contractual cash inflows (0% inflow factor)**  Input as follows:   * No input required for “Pre-Adjusted Amount”. * The “Amount (adjusted where relevant)” comprises all other amounts contractually due within the next 30 days not reported elsewhere. * *Note: Cash inflows related to non-financial revenues are excluded in the calculation of the net cash outflows for LCR purposes.* * Figures must be provided by jurisdiction. The aggregate figure will be calculated automatically. |
| I.5 | **Total Other Cash Inflows**  Calculated automatically as the sum of I.1 to I.4, both by jurisdiction and in aggregate. |
| **Item J – Total Cash Inflows** | |
| J.1 | **Total Cash Inflows**  Calculated automatically as the sum of F.2, G.1, H.6 and I.5, both by jurisdiction and in aggregate. |

# LCR Calculation (sheet 4)

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| **Item K – LCR Calculation** | |
| All Items in sheet 4, “Liquidity Coverage Ratio Calculation”, automatically populate using the data from Sheets 1 to 3 pertaining to HQLA, Outflows and Inflows. Calculations use figures from the columns headed:   * For Sheet 1 “Stock of High-Quality Liquid Assets”, the “Weighted Amount” and “Adjusted HQLA”. * For Sheet 2 “Cash Outflows”, the “Expected Cash Outflow”. * For Sheet 3 “Cash Inflows”, the “Expected Cash Inflow”.   The list below sets out the links embedded in the calculation. | |
| K.1 | **High Quality Liquid Assets (Sheet 1)**  K.1.1 – this is the Total Level 1 HQLA (Item L.1.7)  K.1.2 – this is the Total Level 2A HQLA (Item L.2A.5)  K.1.3 – this is the Total Level 2B HQLA (Item L.2B.8)  K.1.4 – this is the Adjusted Level 1 HQLA (Item LA.1)  K.1.5 – this is the Adjusted Level 2A HQLA (Item LA.2)  K.1.6 – this is the Adjusted Level 2B HQLA (Item LA.3)  K.1.7 – this is the Adjustment for Level 2B 15% cap (Item LA.4)  K.1.8 – this is the Adjustment for Level 2 40% cap (Item LA.5) |
| K.2 | **Total Adjusted Stock of HQLA**  This is the total stock of HQLA, weighted amount, from Item LA.7 |
| K.3 | **Expected Cash Outflows (Sheet 2)**  K.3.1 – this is the Total Retail Deposit Outflows (Item A.8)  K.3.2 – this is the Total Wholesale Funding Outflows (Item C.8)  K.3.3 – this is the Total Cash Outflows - Additional Requirements (Item D.32) |
| K.4 | **Total Expected Cash Outflows**  The sum of Items K.3.1 to K.3.3. It should equal Item E.1, Sheet 2.  K.4.1 (75% Total Expected Cash Outflows) – this is 75% of Item K.4 |
| K.5 | **Expected Cash Inflows (Sheet 3)**  K.5.1 – this is the Total Secured Lending Inflows (Item F.2)  K.5.2 – this is the Committed Facilities (Item G.1)  K.5.3 – this is the Total Other Inflows by Counterparty (Item H.6)  K.5.4 – this is the Total Other Cash Inflows (Item I.5) |
| K.6 | **Total Expected Cash Inflows**  The sum of Items K.5.1 to K5.4. It should equal Item J.1, Sheet 3. |
| K.7 | **Capped Cash Inflow**  The lower of Total Expected Cash Inflows (Item K.6) or 75% of Total Expected Cash Outflows (Item K.4.1). |
| K.8 | **Total Net Cash Outflow**  The Total Expected Cash Outflows (Item K.4) minus Capped Cash Inflow (Item K.7) |
| K.9 | **Liquidity Coverage Ratio (%)**  The Total Adjusted Stock of HQLA (Item K.2) divided by Total Net Cash Outflow (Item K.8) expressed as a percentage. |

# Annex A - HQLA – General Requirements

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetised and the timeframe considered. There are certain assets that are more likely to generate funds without incurring large discounts in sale or repurchase agreement (repo) markets due to fire-sales even in times of stress.

This section sets out the factors that influence whether the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses. Banks must exclude potential HQLA items that do not have the requisite characteristics, even if they meet other criteria.

Banks should assess assets and exclude any that, despite meeting the criteria, are not sufficiently liquid to be included in the stock of HQLA. This assessment process must be included in the bank’s Liquidity Management Policy and should cover:

1. Fundamental characteristics; and
2. Market-related characteristics

The test of whether liquid assets are of “high quality” is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress.

HQLA (except Level 2B assets) should ideally be eligible at central banks for intraday liquidity needs and overnight liquidity facilities. Central banks can provide a further backstop to the supply of banking system liquidity under conditions of severe stress. However, central bank eligibility does not by itself constitute the basis for the categorisation of an asset as HQLA.

Banks that have direct access to central banks, including via overseas branches, should determine whether assets are eligible. Banksthat do not have direct access should still carry out the work but only consider assets to be eligible if:

1. The assets are eligible at a central bank via a group counterparty; and
2. There is a tried and tested operational route to access funding from that central bank via that counterparty.

**Fundamental characteristics**

***Low risk*:** assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset’s liquidity. Low sensitivity to interest rate and market risk, low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset’s liquidity.

***Ease and certainty of valuation*:** an asset’s liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardised, homogenous and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a high-quality liquid asset must be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should exclude most structured or exotic products.

***Low correlation with risky assets*:** the stock of HQLA should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions (other than PSE exposures where the PSE has a clear public remit and is not regulated as a bank) are more likely to be illiquid in times of liquidity stress in the banking sector.

***Listed on a developed and recognised exchange*:** being listed increases an asset’s transparency.

**Market-related characteristics**

***Active and sizable market*:** the asset should have active outright sale or repo markets at all times. This means that:

1. There should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes, and a large and diverse number of market participants. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market.
2. There should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling HQLA.

***Low volatility*:** Assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of traded prices and spreads over benchmarks are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (e.g. prices and haircuts) and volumes during stressed periods.

***Flight to quality*:** historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

# Annex B - High Quality Liquid Assets (HQLA) – Operational Requirements

All assets in the stock of HQLA are subject to the following operational requirements. The purpose of the operational requirements is to recognise that not all assets outlined in Section 2 that meet the asset class, risk-weighting and credit-rating criteria should be eligible for the stock as there are other operational restrictions on the availability of HQLA that can prevent timely monetisation during a stress period.

These operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the bank can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds; and that the stock of assets is available for the bank to convert into cash through outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restriction on the use of the liquidity generated.

A bank should periodically monetise a representative proportion of the assets in the stock of HQLA through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress. This requirement for periodic monetisation may be satisfied by transactions carried out through a bank’s normal course of business.

All assets in the stock must be unencumbered. “Unencumbered” means free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer or assign the asset. An asset in the stock must not be pledged (either explicitly or implicitly) to secure, collateralise or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held at the bank, have not been rehypothecated, and are legally and contractually available for the bank's use, can be considered as part of the stock of HQLA. In addition, assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank or a public sector entity (PSE) but have not been used to generate liquidity may be included in the stock.

A bank must exclude from the stock those assets that, although meeting the definition of “unencumbered”, the bank does not have the operational capability to monetise to meet outflows during the stress period. Operational capability to monetise assets requires having procedures and appropriate systems in place, including access to all necessary information to execute monetisation of any asset at any time. Monetisation of the asset must be executable, from an operational perspective, in the standard settlement period for the asset class in the relevant jurisdiction.

The stock must be under the control of the function charged with managing the liquidity of the bank (e.g. the treasurer), meaning the function has the continuous authority, and legal and operational capability, to monetise any asset in the stock. Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole purpose being use as a source of contingent funds, or by documenting in its Liquidity Management Policy (LMP) how it has and will verify from time to time that:

1. The function can monetise the asset at any point in the 30-day stress period; and
2. That the proceeds of doing so are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk-management strategy. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the 30-day period, would remove a hedge that would create an open risk position in excess of internal limits.

A bank is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If it chooses to hedge the market risk, the bank must take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold).

A bank “*should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner*”. Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held. In addition, the bank should determine whether any such assets should be excluded for operational reasons and therefore have the ability to determine the composition of its stock on a daily basis.

Banks must assess whether they have access to large, deep and active repo markets for each eligible asset class. Where this is not the case, assets can only be included if it is likely that they could be monetised through outright sale. In these circumstances, a bank must exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements, or requirements to hold such assets, including, but not limited to, statutory minimum inventory requirements for market-making.

In order to mitigate cliff effects that could arise, if an eligible liquid asset became ineligible (e.g. due to rating downgrade), a bank is permitted to keep such assets in its stock of HQLA for 30 calendar days from the date it fails to meet one or more criteria. This would allow the bank additional time to adjust its stock as needed or replace the asset.

**Consolidated reporting**

The following is only relevant to banks where consolidated reporting of the bank is required.

Qualifying HQLA that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level (where applicable) may only be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity or sub-consolidated group’s net cash outflows in the LCR) are also reflected in the consolidated LCR. Any surplus of HQLA held at the legal entity can only be included in the consolidated stock if those assets would also be freely available to the consolidated (parent) entity in times of stress.

In assessing whether assets are freely transferable for regulatory purposes, banks should be aware that assets may not be freely available to the consolidated entity due to regulatory, legal, tax, accounting or other impediments. Assets held in legal entities without market access should only be included in the stock of HQLA to the extent that they can be freely transferred to other entities that could monetise the assets.

**Rehypothecated assets**

Banks must not include in the stock of HQLA any assets, or liquidity generated from assets, that they have received under right of rehypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period. ***Section 4, Item F.1.7*** deals with the appropriate treatment if the contractual withdrawal of such assets would lead to a short position (e.g. because the bank had used the assets in longer-term securities financing transactions).

Assets received as collateral for derivatives transactions that are not segregated and are legally able to be rehypothecated may be included in the stock of HQLA provided that the bank records an appropriate outflow for the associated risks.

**Currency considerations**

While the LCR must be met and reported in sterling, banks should be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. The bank should be able to use the stock to generate liquidity in the currency and jurisdiction in which the net cash outflows arise. As such, the LCR by currency should be monitored and reported to allow the bank and the Authority to track any potential currency mismatch issues that could arise*.* In managing foreign exchange liquidity risk, the bank should take into account the risk that its ability to swap currencies and access the relevant foreign exchange markets may erode rapidly under stressed conditions. It should be aware that sudden, adverse exchange rate movements could sharply widen existing mismatched positions and alter the effectiveness of any foreign exchange hedges in place.

**The information required to be reported to the Authority for LCR by currency is set out separately and does not form part of this guidance.**

**Diversification of the stock of HQLA**

The stock of HQLA should be well diversified across and within the asset classes themselves (except for sovereign debt of the bank’s home jurisdiction or from the jurisdiction in which the bank operates; central bank reserves; central bank debt securities; and cash). Although some asset classes are more likely to remain liquid irrespective of circumstances, it is not possible to know with certainty which specific assets will.

Banks should therefore have policies and limits in place in order to avoid concentration of asset types, issue and issuer types, and currencies (consistent with the distribution of net cash outflows by currency) within asset classes. This should be documented in the bank’s LMP.

# Annex C - Eligible Multilateral Development Banks (MDBs)

List of MDBs that are eligible for a 0% risk weight:

* the World Bank Group comprising:
  + the International Bank for Reconstruction and Development,
  + the International Finance Corporation,
  + the Multilateral Investment Guarantee Agency, and
  + the International Development Association
* Asian Development Bank
* African Development Bank
* European Bank for Reconstruction and Development
* Inter-American Development Bank
* European Investment Bank
* European Investment Fund
* Nordic Investment Bank
* Caribbean Development Bank
* Islamic Development Bank
* Council of Europe Development Bank
* International Finance Facility for Immunization
* Asian Infrastructure Investment Bank.

# Annex D - Jurisdictions with Insufficient HQLA and Alternative Liquidity Approaches (ALAs)

**Introduction**

*This Annex is a limited summary of the BCBS’s “Alternative liquidity approaches” of the LCR Standard and should be read in conjunction with that document.*

Some jurisdictions may have an insufficient supply of Level 1 HQLA, or both Level 1 and Level 2 HQLA in their domestic currency to meet the aggregate demand of banks with significant exposures in this currency. To address this situation, the BCBS developed alternative treatments for holdings in the stock of HQLA. These are expected to apply only to a limited number of currencies and jurisdictions.

At this time, the Authority does not consider that the Isle of Man, UK or any other Crown Dependency currently meet these criteria. Accordingly, the ***HQLA Items L.1.6, L.2A.4, L.2B.7 and LA.6 must be left blank***. This Annex is only relevant should such Items be completed in future.

The ***HQLA Items L.1.6, L.2A.4, L.2B.7 and LA.6*** have only been included in the LCR Return for future proofing purposes in the event that a bank may in future, with the required regulatory authorisation, operate through branches that are in jurisdictions that qualify for and have adopted an ALA and where the bank proposes to adopt that local approach. In such cases, Authority approval to adopt the local ALA must be sought.

Should a bank propose to adopt a local ALA, it must demonstrate that it has taken reasonable steps to use Level 1 and Level 2 HQLA and reduce the amount of liquidity risk (as measured by reducing net cash outflows in the LCR) to improve its LCR, before applying an ALA. Holding an HQLA portfolio is not the only way to mitigate a bank’s liquidity risk. For example, a bank could improve the matching of its assets and liabilities, attract stable funding sources, or reduce its longer-term assets. Banks should not treat the use of the ALA options simply as an economic choice that maximises the profits of the bank through the selection of alternative HQLA based primarily on yield considerations. The liquidity characteristics of an alternative HQLA portfolio should be considered to be more important than its net yield.

Where a bank proposes to adopt a local ALA which has been determined appropriate by peer review[[9]](#footnote-9), the local approach may be used to the extent that the alternative assets held meet liquidity requirements arising from liabilities held in that jurisdiction that are not met by HQLA held in that jurisdiction.

Where no such peer review has been published, a bank wishing to use a local treatment should provide the Authority with full details of the local ALA, including any self-assessment published by the relevant authority, any published plans to carry out such a peer review and the bank’s own assessment of the approach versus the parameters set out in the LCR Standard including the criteria set out herein.

**Principles for assessing jurisdiction eligibility for ALAs**

Eligibility for using ALAs is judged against the principles and qualifying criteria set out in LCR Standard and explained further therein.

To qualify for the ALA, a jurisdiction must satisfy all of the following principles:

*Principle 1: Insufficiency of HQLA*

A jurisdiction must demonstrate and justify that insufficient HQLA denominated in its domestic currency exists, taking into account all relevant factors affecting the supply of, and demand for, such HQLA.

*Principle 2: Managing performance*

A jurisdiction that intends to adopt one or more of the options for alternative treatment must be capable of limiting the uncertainty of performance, or mitigating the risks of non-performance, of the option(s) concerned.

*Principle 3: Supervisory obligations*

A jurisdiction that intends to adopt one or more of the options for alternative treatment must be committed to observing all of the obligations set out below:

1. Maintain a supervisory monitoring system to ensure banks’ compliance with the requirements of the option(s) used:
2. Document and update its ALA making it explicit and transparent to other national supervisors;
3. Periodically review the determination of insufficient HQLA;
4. Permit an independent peer review of its ALA framework.

**ALAs**

Three ALAs are available. Detailed information on these options is set out in the LCR Standard.

*Option 1: Contractual committed liquidity facilities from the relevant central bank, for a fee*

Banks may access contractual committed liquidity facilities (CLFs) provided by the relevant central bank (i.e. relevant to the currency in question) for a fee. These CLFs should be distinct and separate from regular central bank standing arrangements. These facilities must be established contractual arrangements between the central bank and the commercial bank with a maturity date which, at a minimum, falls outside the 30-day LCR window. The contract must be irrevocable prior to maturity and must not involve an ex-post credit decision by the central bank. Such facilities must also incur a fee for the facility, which is charged regardless of the amount, if any, drawn down against that facility; and the fee must be set so that both banks that claim the facility to meet the LCR and banks that do not, have similar financial incentives to reduce their exposure to liquidity risk.

If approved, relevant amounts should be included in the calculation of ***Item L.1.6*** – “Alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA”.

*Option 2: Foreign currency HQLA to cover domestic liquidity needs*

Supervisors may permit banks that evidence a shortfall of HQLA in the domestic currency (i.e. insufficient domestic currency HQLA relative to domestic currency liquidity risk) to hold HQLA in a currency that does not match the currency of the associated liquidity risk. The resulting currency mismatch positions must be justifiable and controlled within limits agreed by their supervisors.

To account for foreign exchange risk associated with foreign currency HQLA used to cover liquidity needs in the domestic currency, such liquid assets must be subject to a minimum haircut of 8% for major currencies that are active in global foreign markets and increased haircuts for other currencies. If the domestic currency is formally pegged to another currency under an effective mechanism, the haircut for the pegged currency may be lowered to a level that reflects the limited exchange rate risk under the peg arrangement.

*Option 3: Additional use of Level 2 HQLA with a higher haircut*

This option addresses currencies for which there are insufficient Level 1 HQLA, as determined by reference to the qualifying principles and criteria, but where there are sufficient Level 2A HQLA. Under this option, the Authority may permit banks that evidence a shortfall of HQLA in the domestic currency (i.e. relative to domestic currency liquidity risk) to hold additional Level 2A HQLA in the stock of HQLA. The additional Level 2A HQLA must be subject to a minimum haircut of 20%, i.e. 5% higher than the 15% haircut applicable to Level 2A HQLA that are included in the 40% cap. The higher haircut should cover any additional price and market liquidity risks arising from increased holdings of Level 2A HQLA beyond the 40% cap and provide a disincentive for banks to use this option based on yield considerations.

If approved, relevant amounts should be included in the calculation of ***Item L.2A.4*** “Adjustment for alternative liquid assets in jurisdictions that implement an Alternative Liquidity Approach due to insufficient HQLA”.

# Annex E - Operational Deposits

**Qualifying Criteria**

Activities in this context refer to clearing, custody and cash management activities that meet the following criteria:

(1) The customer is reliant on the bank to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. For example, this condition would not be met if the bank is aware that the customer has adequate backup arrangements;

(2) The services are provided under a legally binding agreement to institutional customers; and

(3) The termination of such agreements are subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

Qualifying operational deposits generated by such an activity are ones where:

(1) The deposits are by-products of the underlying services provided by the banking organisation and not sought out in the wholesale market in the sole interest of offering interest income. Specifically, brokered deposits are excluded; or

(2) The deposits are held in specifically designated accounts (not pooled) and priced without giving an economic incentive to the customer (not limited to paying market interest rates) to leave any excess funds on these accounts. In the case that interest rates in a jurisdiction are close to zero, it would be expected that such accounts are non-interest bearing. Banks should be particularly aware that during prolonged periods of low interest rates, excess balances (as defined below) could be significant.

Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody and cash management activities do not qualify for the 3%, 5% or 25% run-off factors. In other words, only that part of the deposit balance with the service provider that is proven to serve a customer’s operational needs can qualify as stable. Excess balances must be treated in the appropriate category for non-operational deposits. If banks are unable to determine the amount of the excess balance, then the entire deposit must be assumed to be excess to requirements and, therefore, considered non-operational.

Banks must determine the methodology for identifying excess deposits that are excluded from this treatment. This assessment should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress. The methodology should take into account relevant factors such as the likelihood that wholesale customers have above average balances in advance of specific payment needs and consider appropriate indicators (e.g. ratios of account balances to payment or settlement volumes or to assets under custody) to identify those customers that are not actively managing account balances efficiently.

Notwithstanding these operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services[[10]](#footnote-10), it must be treated as if there were no operational activity for the purpose of determining run-off factors. Such deposits must be included in ***Section 3, Item B.16.1*** reported as “Deposits from Other Banks” and subject to a 100% run-off factor.

**Relevant Activities**

The following paragraphs describe the types of activities that may generate operational deposits. A bank should assess whether the presence of such an activity does indeed generate an operational deposit as not all such activities qualify due to differences in customer dependency, activity and practices:

1. A clearing relationship, in this context, refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders; daylight overdraft, overnight financing and maintenance of post-settlement balances; and determination of intra-day and final settlement positions;
2. A custody relationship, in this context, refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions. Custodial services can furthermore extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services (excluding correspondent banking), and depository receipts; and
3. A cash management relationship, in this context, refers to the provision of cash management and related services to customers. Cash management services, in this context, refers to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer’s ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

# Annex F - Committed Credit and Liquidity Facilities

For LCR purposes:

1. Credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties;
2. These facilities only include contractually irrevocable (committed) or conditionally revocable agreements to extend funds in the future; and,
3. Facilities that are unconditionally cancellable by the bank (in particular, those without a precondition of a material change in the credit condition of the borrower) must be excluded from this section and reported in ***Section 3 “Other contingent funding obligations” at Items D.23 to D.30.***

These off-balance sheet facilities or funding commitments can have long or short-term maturities, with short-term facilities frequently renewing or automatically rolling over.

In a stressed environment, it will likely be difficult for customers drawing on facilities of any maturity, even short-term maturities, to be able to quickly pay back the borrowings. Therefore, for LCR purposes, all facilities that are assumed to be drawn within the 30-day period (as outlined in ***Section 3 at Items D.12 to D.18***) must be assumed to remain outstanding without repayment, regardless of maturity.

The currently undrawn portion of these committed credit and liquidity facilities should be reported as the “Pre-Adjusted Amount”. The reported amount under “Amount (adjusted where relevant)” is the “Pre-Adjusted Amount” calculated net of any HQLA if:

1. The HQLA have already been posted as collateral by the counterparty to secure the facilities, or the HQLA are contractually obliged to be posted when the counterparty draws down the facility (e.g. a liquidity facility structured as a repo facility); and,
2. The bank is legally entitled (and operationally capable) to re-use the collateral in new cash raising transactions once the facility is drawn, and there is no undue correlation between the probability of drawing the facility and the market value of the collateral; and,
3. The collateral is not already counted in the stock of HQLA (in line with the principle that items must not be double counted).

A liquidity facility is defined as any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where the customer is unable to rollover that debt in financial markets (e.g. pursuant to a commercial paper programme, secured financing transactions, obligations to redeem units etc).

The amount of the commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30-day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility.

Any additional capacity of the facility (i.e. the remaining commitment) must be treated as a committed credit facility with its associated drawdown rate in ***Section 3, Items D.12, D.13, D.15, D.16 and D.18.***

General working capital facilities for corporate entities (e.g. revolving credit facilities in place for general corporate or working capital purposes) must not be classified as liquidity facilities, but as credit facilities.

Notwithstanding the above, any facilities provided to hedge funds, money market funds and special purpose funding vehicles, for example SPEs (***as defined in Section 3, Item D.10 and the applicable footnote***) or conduits, or other vehicles used to finance the banks’ own assets, must be captured in their entirety as a liquidity facility to other legal entities.

For that portion of financing programmes that are maturing or have liquidity puts that may be exercised in the 30-day horizon (***Section 3, Items D.9, D.10 and D.12 to D.18***) banks that are providers of associated liquidity facilities do not need to double count the maturing financing instrument and the liquidity facility for consolidated programmes.

1. [LCR - Liquidity Coverage Ratio](https://www.bis.org/basel_framework/standard/LCR.htm?tldate=20241129) [↑](#footnote-ref-1)
2. Defined as the total expected cash outflows minus the total expected (capped) cash inflows in the specified stress scenario for the subsequent 30 calendar days. Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon. [↑](#footnote-ref-2)
3. E.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls [↑](#footnote-ref-3)
4. Where applicable, cash outflows should include interest that is expected to be paid during the 30-day time horizon. [↑](#footnote-ref-4)
5. Outflows on unsecured wholesale funding from affiliated entities of the bank are included in this category unless the funding is part of an operational relationship or the affiliated entity is a non-financial corporate. [↑](#footnote-ref-5)
6. Per paragraph 40.46 Footnote 15 Basel LCR Standard “*A customer short position in this context describes a transaction where a bank’s customer sells a security it does not own, and the bank subsequently obtains the same security from internal or external sources to make delivery into the sale. Internal sources include the bank’s own inventory of collateral as well as rehypothecatable collateral held in other customer margin accounts. External sources include collateral obtained through a securities borrowing, reverse repo, or* *like transaction.*” [↑](#footnote-ref-6)
7. A Special Purpose Entity (SPE) is defined as a corporation, trust, or other entity organised for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs, normally a trust or similar entity, are commonly used as financing vehicles in which exposures are sold in the SPE in exchange for cash or other assets funded by debt issued by the trust. [↑](#footnote-ref-7)
8. Where applicable cash inflows should include interest that is expected to be received during the 30-day time horizon. [↑](#footnote-ref-8)
9. Such peer review is an independent review of the jurisdiction’s ALA framework to be conducted as part of the BCBS’s work programme. [↑](#footnote-ref-9)
10. Correspondent banking refers to arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g. so called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent bank for the provision of clearing and settlement of payments). Prime brokerage is a package of services offered to large active investors, particularly institutional hedge funds. These services usually include: clearing, settlement and custody; consolidated reporting; financing (margin, repo or synthetic); securities lending; capital introduction; and risk analytics. [↑](#footnote-ref-10)