

Feedback on Consultation Paper No. 3 2017 Basel III: Liquidity Management

Feedback on responses received to the consultation on proposals to amend liquidity management, monitoring and reporting requirements to:

- › Address the new international standards established in Basel III
- › Amend prudential reporting requirements to provide relevant evidence of compliance and
- › Require an annual internal liquidity assessment process to be performed by all Jersey incorporated banks, subject to supervisory review, building on similar current requirements regarding capital adequacy.

Glossary of Terms

All defined terms used in the consultation are indicated by *italics* and defined in *CP3's* Glossary of Terms.

Please click [here](#) to view that document.

Terms used in this paper (not *CP3*):

CP3	“Consultation Paper No. 3 2017 Basel III: Liquidity Management”, issued by the <i>JFSC</i> in April 2017
Pillar 1 LCR/LMR	Ratios calculated in accordance with the <i>LCR Standard</i>
Retail bond	a debt security issued by the JIB to a retail investor
QE	Quantitative Easing
Treasury Group	A group of representatives involved in the treasury operations of local fiduciaries (see Appendix A for a list of the firms)

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1 Executive summary

1.1 Overview

1.1.1 This paper provides feedback on the responses provided by Industry to “*Consultation Paper No. 3 2017 Basel III: Liquidity Management*” (**CP3**). This consultation proposed revised regulatory requirements for banks’ liquidity management, monitoring and reporting.

1.1.2 *CP3* built upon the earlier *Liquidity DP*, issued jointly by the *Tri-Party Group* and the joint feedback document issued to Industry. All relevant documents are available on the JFSC’s website, in the page titled “*Basel III: Implementation in Jersey*”, at:

1.1.2.1 http://www.jerseyfsc.org/banking_business/basel/index.asp

1.2 Key issues raised and changes to proposals

1.2.1 Other than as noted in **Sections 2 to 6**, respondents supported the proposals.

1.2.2 **Sections 2 to 5** address responses concerning the impact on *JIBs*.

1.2.3 **Section 2** addresses concerns raised on the treatment of fiduciary deposits. In large part, this includes matters raised by a group of respondents that are involved in the management of such deposits (referred to collectively as the **Treasury Group**). The revisions outlined widen the potential for beneficial adjustments to be made to include pooled accounts but only those to which the general restrictions set out in *CP3* apply.

1.2.4 **Section 3** addresses responses concerning implementation, in general providing a more detailed timeline. In particular, proposals in *CP3* for the use of existing *LBAs* in the period prior to the completion of the *Pillar 2* process are further elaborated to address concerns regarding readiness.

1.2.5 **Section 4** addresses responses that challenged the proposals on self-assessment, including an alternative suggested by respondents to separate prudential reporting from the self-assessment process. It explains why the approach outlined in *CP3* has advantages for local reporting, principally the simplicity of prudential analysis, whilst acknowledging that the absence of a standard *LCR/LMR* might give rise to challenges for *JIBs*. The solution amends the reporting so that a standard *LCR/LMR* can also be derived (on a voluntary basis), using adjustments that mirror the minima/maxima set out in the *LCR Standard*. To avoid confusion, it is proposed to label this the **Pillar 1 LCR/LMR** (as applicable).

1.2.6 **Section 5** addresses all other issues raised by respondents that are *JIBs* and describes some minor changes.

1.2.7 **Section 6** addresses issues raised by respondents that are *OIBs* regarding the limited reporting proposed. No significant changes are proposed.

1.3 What are the next steps?

- 1.3.1 Implementation will involve the following:
 - 1.3.2 A draft of the amended *Pillar 2 Guidance Note* will be produced in the coming months and provided to *JIBs* for comment;
 - 1.3.3 A final version of the *Pillar 2 Guidance Note* will be issued in 2018, along with a revised *Banking Code*, requiring internal monitoring and reporting of breaches from 31 December 2018;
 - 1.3.4 *JIBs* will be provided with full details of reporting documentation in early 2018;
 - 1.3.5 By the end of July 2018, *JIBs* will be required to submit a simplified assessment, based on existing *LBAs* except where the *LCR Standard* is more conservative;
 - 1.3.6 *JIBs* will be required to report under the revised system for the first time as a test alongside the September 2018 Prudential return;
 - 1.3.7 *JIBs* will be required to submit prudential reporting for December 2018 and later periods using a revised prudential reporting system, incorporating the new requirements;
 - 1.3.8 In 2018, *OIBs* will be required to agree what metrics they will report for liquidity and to provide the metrics within existing prudential reporting for December 2018;
 - 1.3.9 In 2019, a revised prudential reporting system for *OIB* reporting will be rolled out.
- 1.3.10 For further details, see **Section 3** for *JIBs* and **Section 6** for *OIBs*.

2 Treatment of fiduciary deposits (question 1)

2.1 Summary of the CP proposals and the relevant question

- 2.1.1 In the *LCR Standard*, no adjustments are permitted for *fiduciary deposits* (deposits managed by financial entities on behalf of beneficiaries), with the result that all such deposits maturing within a month would be treated as outflows for the purpose of calculating *HQLA* requirements.
- 2.1.2 *CP3* proposed limiting this restriction to only those *fiduciary deposits* (see **Appendix C** to *CP3* for full details) that are:
- 2.1.3 Pooled; or
- 2.1.4 Designated and either:
- 2.1.4.1 Brokered; or
- 2.1.4.2 Actively managed to:
- › achieve an investment return; or
 - › mitigate risk of a downgrade below established criteria, except where the relevant bank is more than three notches higher than those criteria. (For example, if it was specified that banks must be investment grade, banks would only be able to adjust deposits if they were A- rated or higher i.e. three notches above BBB-.)
- 2.1.5 *CP3, Question 1: Do you consider that the proposals regarding fiduciary deposits would be likely to give rise to a loss of business or profitability? If so, are there appropriate additional measures that could mitigate the impact of these proposals? If so, please outline them, together with a brief assessment of pros and cons and provide relevant evidence.*

2.2 Responses

- 2.2.1 The *Treasury Group* requested that:
- 2.2.1.1 all pooled deposits be afforded the same outflow treatment as proposed for designated *PIC* accounts; and
- 2.2.1.2 *fiduciary deposits* be not penalised as proposed but, instead, be treated more similarly to retail deposits.
- 2.2.2 The *Treasury Group's* input consisted of two letters, a meeting with the *JFSC* and data relating to relevant business activity during the financial crisis, relating to one member.

JFSC Response

- 2.2.3 Having considered the input from the *Treasury Group*, it is agreed that blanket exclusions are not appropriate and the final rules will be revised to remove them for both pooled and brokered deposits. However, the *Pillar 2 Guidance Note* will state that brokered and pooled deposits are typically actively managed and this is a factor that must be considered in determining whether a specific deposit is “actively managed”.
- 2.2.4 This change is expected to have a limited impact, allowing adjustment to, for example, a lawyer’s pooled client account that is not actively managed.
- 2.2.5 It is considered that a sufficient case has not been made to establish that the *LCR Standard* is inappropriate. The data supplied by the *Treasury Group* member has been weighed against the international standard, itself based on evidence collected worldwide by many central banks during the financial crisis, and data supplied by banks to the *JFSC*, both (1) as part of prudential supervision of *JIBs* during the financial crisis and (2) as part of a specific exercise, to assess the appropriateness of the *LCR Standard* concerning the treatment of *fiduciary deposits*, collected by the *JFSC* soon after the financial crisis.
- 2.2.6 The proposed preferential treatment (compared to the *LCR Standard*) will, therefore, remain restricted to *fiduciary deposits* that are not actively managed. This is expected to include cases where operational issues preclude active management and where client agreements note that deposits will not be actively managed. Such deposits pose a different liquidity risk to typical *fiduciary deposits* and these revised proposals are therefore considered to be appropriate, noting the requirement for verification of the adjustments applied by the *JIB* in its *ICAAP*.
- 2.2.7 For actively managed *fiduciary deposits*, it seems likely that *JIBs* will seek to reflect the cost of liquidity in their pricing. The impact of the proposals in this respect should be seen in context. For larger pooled deposits, the adjustments permitted currently, in the form of *LBAs*, are already limited. Moreover, regulatory liquidity management requirements are only one factor in pricing, which will also be impacted, for example, by group liquidity requirements and a *JIB’s* own internal liquidity considerations.
- 2.2.8 In turn, fiduciary managers will need to balance any higher returns available for tying up deposits for a longer term with the associated reduced access to them. The direct impact of these proposals can be mitigated by placing funds (via fixed term or notice products) for periods longer than one month. Where long-term fixed deposits approach maturity, agreeing roll-over of funding one month or more ahead of maturity provides a route to further mitigating the impact.
- 2.2.9 *JIB* respondents were broadly satisfied with the proposals, noting their similarity with EU implementation.
- 2.2.10 One *JIB* sought clarification on the treatment of long-term fiduciary deposits, in the circumstance where they fall within the one month horizon.

JFSC Response

- 2.2.11 CP3 proposed that, in the case of *fiduciary deposits*, no adjustment be permitted for long-term deposits. This was on the basis that such deposits are typically managed to achieve an investment return and hence not eligible for adjustment.
- 2.2.12 To allow for all eventualities, adjustments will now be permitted in cases where the *JIB* ascertains that the deposits are not managed actively. Guidance will require *JIBs* to take into account the term of deposits as one factor when determining whether deposits are actively managed.
- 2.2.13 Where a *JIB* determines that there is no active management, it will be required to carry out a separate assessment in its *ICAAP*, following the guidance for long-term deposits.
- 2.2.14 One *JIB* sought clarification on the treatment of *fiduciary deposits* received from a group-owned fiduciary, where the *JIB* has previously been able to demonstrate historic stickiness and hence applies *LBAs* currently.

JFSC Response

- 2.2.15 CP3 did not distinguish such deposits. Adjustments will be permitted where the *JIB* ascertains that the *fiduciary deposits* are not actively managed, as for any other fiduciary – they will not be permitted to presume that deposits will be sticky purely because of ownership of the fiduciary.

3 Implementation (question 4)

3.1 Summary of the CP3 proposal and the relevant question

- 3.1.1 **Section 4.9** of *CP3* proposed that the new requirements should be added to prudential reporting for the quarter period ending December 2018, with parallel reporting enabled for the period ending September 2018.
- 3.1.2 *JIBs* will be required to fully assess the appropriateness of all the parameters used in calculating their *LCR/LMR*, including with respect to *HQLA*, in their 2019 *ICAAPs*.
- 3.1.3 Prior to the assessment of these *ICAAPs*, and subject to prior agreement from the *JFSC*, it is proposed to allow *JIBs* to use existing *LBAs* (those relating to 1 month outflows) as a basis for deriving percentage outflows for the *LCR/LMR* and use group criteria for the identification of *HQLA* in 2018 and 2019 (prior to completion of the 2019 *ICAAP* review) provided that:
- 3.1.3.1 They can provide a mapping of *LBAs* to the *LCR* categories; and
- 3.1.3.2 They apply the relevant minima.
- 3.1.4 Failing this, the most conservative assumptions would apply in each case; for example, 100% of the contractual outflow due in one month for deposits.
- 3.1.5 *CP3, Question 4: Do you consider the transitional approach is appropriate? Are there any particular measures that would ease transition?*

3.2 Responses

- 3.2.1 One *JIB* requested that templates be made available to allow testing. Another more generally asked that a definitive timetable be established for the publication of documents, reporting templates and associated guidance.
- 3.2.2 Several *JIBs* had concerns regarding the requirements around the *ICAAP*, given the short timescale for an *ICAAP* to be created in light of the need for it to be submitted and reviewed ahead of the deadline for transition, with one noting that the *JFSC* itself needed to have sufficient resourcing to enable reviews to be completed.
- 3.2.3 One *JIB* suggested that that some transitional arrangements be made available in the event of a material shift in liquidity requirements as a result of the new requirements.
- 3.2.4 Another suggested that *JIBs* should be allowed to report using current *LBAs* where the blended outflows for Retail and Wholesale Funding exceed the blended outflows required under the *LCR*.
- 3.2.5 One suggested that the use of existing *LBAs* would disadvantage *JIBs* where a low concentration threshold had been established versus the £20 million limit now proposed.

JFSC response

- 3.2.6 Taking feedback into account, changes will be made to simplify the initial transition, which will now in all cases be based on existing *LBAs* rather than full assessments, with full assessment deferred into 2019.
- 3.2.7 *JIBs* will be provided with full details of reporting templates and associated guidance in the first half of 2018. Those that involve entirely new requirements will be disseminated first, with more modest revisions following (changes to systems, minor layout changes or minor changes to guidance).
- 3.2.8 *JIBs* will be required to report using the revised prudential reporting system for the first time as a test of systems alongside the September Prudential return, with no minima applying.
- 3.2.9 A draft of the amended *Pillar 2 Guidance Note* will be produced in January 2018 and provided to *JIBs* for comment, reflecting the proposals outlined in **Section 6** of *CP3* and the changes set out herein, and provide any additional guidance necessary to aid *JIBs* in assessing liquidity risk in their *ICAAPs*.
- 3.2.10 It is intended to then issue a final version of the *Pillar 2 Guidance Note*, adjusted to reflect feedback on the draft, and revised *Banking Codes* by the end of March 2018, as set out in **Sections 4 to 6** of *CP3* (and see **Appendix J to CP3** for more details).
- 3.2.11 The revised *Pillar 2 Guidance Note* will indicate that *JIBs* should, by the end of July 2018, provide (separately to their *ICAAP*) an interim assessment of (1) adjustments relating to the *LCR/LMR*, based generally on existing one month *LBAs*, except where the *LCR/LMR* minima/maxima are more conservative, these must be used, and (2) *HQLA* eligibility, referencing Group criteria rather than being based on local assessment.
- 3.2.12 It is recognised that in some cases some existing *LBAs* will exceed *LCR* minima and in other cases be lower than minima. In such cases, no offsetting will be permitted of the impact.
- 3.2.13 Two partial exemptions will apply to the use of *LBAs*, which will mitigate the impact of the new minima. Firstly, in the case of stable retail deposits, the *LCR* minimum may be used. This will provide a narrow benefit that is expected to persist once assessments are made by *JIBs*.
- 3.2.14 Secondly, in the case of *LBAs* where concentration limits currently apply, an increase to the maximum agreed limit may be requested to the lower of (A) the fixed limit of £20 million and (B) the limit for a significant counterparty (1% of the *JIB's* balance sheet). This is intended to level the playing field between *JIBs*.
- 3.2.15 If any transitional issues arise they should be flagged as soon as practicable; the *JFSC's* expectation is that for most *JIBs* the impacts will be manageable.
- 3.2.16 Any requests for permission to use the *LMR* will be required to be submitted at the same time as their interim assessment.
- 3.2.17 The *JFSC* will aim to complete its reviews and communicate individual results by the end of October 2018.

- 3.2.18 *JIBs* will be required to report for December 2018 and later periods using the revised system. Existing requirements will be switched off for later periods but dual reporting will be required in December 2018.
- 3.2.19 Internal monitoring and reporting to the *JFSC* of incidents where the *LCR/LMR* falls below 100% will be required from 31 December 2018.
- 3.2.20 All *JIBs* will be expected to fully assess liquidity within *ICAAPs* submitted after 1 January 2019. *JIBs* will be required to use revised adjustments as and when the *JFSC's* reviews of these are completed.

4 Self-assessment (questions 5, 7 and 8)

4.1 Summary of the CP3 proposal and relevant questions

- 4.1.1 CP3 proposes (in **Section 6**) that *JIBs* will be required to carry out a self-assessment of liquidity risk in a wider-scope ICAAP document, building on the existing Pillar 2 process. This will include validation of the assumptions regarding flows in the *LCR Standard*; and the identification of more conservative assumptions where necessary.
- 4.1.2 All ongoing prudential reporting and internal monitoring of a *JIB's LCR* or *LMR* versus the relevant minima will use these more conservative assumptions, rather than those specified in the *LCR Standard*.
- 4.1.3 An outline of the relevant matters that will be required to be addressed in *ICAAPs* regarding validation in particular was provided in **Section 6** of *CP3*, with the relevant regulations to be implemented in 2018 (through amendments to the *Banking Codes* and the *Pillar 2 Guidance note*), taking into account the views of respondents.
- 4.1.4 *CP3, Question 5: Do you consider the approach to implementation, including the proposed Banking Codes and Guides set out in the Appendices, is appropriate? Are there any specific changes that would ease implementation?*
- 4.1.5 *CP3: Question 7: Do the proposals outlined in Section 6 provide sufficient clarity on expectations regarding internal liquidity assessment? Conversely, which aspects would it be useful to expand upon in the envisaged Pillar 2 Guidance Note?*
- 4.1.6 *CP3: Question 8: Do you disagree with any of the proposals outlined in Section 6? If so, please outline your rationale and provide an alternative that you consider to be appropriate?*

4.2 Responses

- 4.2.1 One respondent said consideration should be given to allowing *JIBs* to report the *LCR/LMR* using the outflow/inflow assumptions prescribed by the *EU Delegated Act* or imposed on them by their parent. Where subsequent supervisory review deems more conservatism is warranted then this could be addressed under the Pillar 2 process.
- 4.2.2 It was also noted by respondents that:
 - 4.2.2.1 the *LCR* was intended to promote commonality in the assessment of liquidity risk across the banking industry globally being based on evidence provided by supervisors in the wake of the 2008 credit crunch;
 - 4.2.2.2 the lack of prescription regarding the treatment of less stable retail deposits and operational deposits would lead to variability; and

- 4.2.2.3 More generally, permitting *JIBs* to determine their own outflow assumptions will give rise to inconsistency and create an unfair playing field.

JFSC Response

- 4.2.3 *JIBs* will be permitted (but not required) to utilise group or indeed other relevant regulators' assumptions regarding stressed behaviour as part of their assessment of liquidity risks in their *ICAAPs*. The only instances where this would not apply would be where the *JIB's* own assessment indicated that further conservatism was required or where the *LCR* is more conservative.
- 4.2.4 The *JFSC* will not endorse any particular regulator's approach (and hence will not impose use of the *EU* approach).
- 4.2.5 Inconsistency in assessment within *ICAAPs* will be constrained through common oversight by the *JFSC* and the establishment of common local minima within the *LCR/LMR*. The *JFSC* may also revise the *Pillar 2 Guidance Note* or otherwise act to seek to maintain a level playing field, should issues arise.
- 4.2.6 It may be that for some purposes (such as public disclosure) it will be useful for *JIBs* to calculate an *LCR*-like ratio that only reflects the minima in the *LCR Standard*. To enable this, *JIBs* will be permitted, but not required, to also compute, report and disseminate to third parties a *Pillar 1 LCR*, based on the minima in the *LCR Standard*, without making adjustments, for the purposes of making a comparison with peers by those third parties.
- 4.2.7 This will not be used to monitor liquidity adequacy, which will remain, as proposed, focussed on the fully adjusted *LCR* or *LMR*, reflecting the *JIB's* self-assessment and the *JFSC's* review.
- 4.2.8 One *JIB* sought additional guidance on intra-day liquidity risk and funding concentration risk in particular.

JFSC response

- 4.2.9 Further guidance on both subjects will be provided in the *Pillar 2 Guidance Note*, drawing on relevant *Basel Committee* publications on these subjects. See **Section 5.2** for further feedback on the specific issue of concentration limits.
- 4.2.10 With regard to stable retail deposits, one *JIB* questioned why a term deposit of more than one week would be less stable. Additionally they asked why there is no reference to an "established relationship test", as required in the *EU*, which they considered was less prudent.

JFSC response

- 4.2.11 The *LCR Standard* states that two types of retail deposit can be considered to be stable. The first is transactional accounts, where no further requirements are established in the *LCR Standard*. We have adopted this approach, with a cut off at 1 week maturity, which is considered appropriate and simple to implement.

4.2.12 The second type is deposits where “*the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely*”. The established relationship test in *EU* regulations appears intended to identify such deposits. Proposals have not been developed locally for this, with the result that all non-transactional deposits will fall into the less-stable category and afforded outflows based on *JIBs*’ considerations of risk in their *ICAAPs*. This eases assessment of term deposits (by not requiring this element to be split out) and the LCR minimum (10%) is lower than existing Jersey *LBA*s for such deposits, limiting any impact of transition.

4.2.13 One *JIB* questioned the separation of Retail Bonds, asking why they could not be captured under the Less Stable Retail Deposit categories.

JFSC response

4.2.14 A “retail bond” is a debt security issued by the *JIB* to a retail investor. This will be made clearer in final guidance, confirming that many products that are described (in customer literature, for example) as bonds are in fact deposits. Retail bonds might therefore include certificates of deposit and structured products, as well as any note issuance targeting retail investors.

4.2.15 Retail bonds are not covered by deposit insurance in any of the *CDs*. In a crisis, it is possible that investors would become aware of the potential for differences in outcomes. For these reasons, *JIBs* will be required to separately consider the impact of a crisis on the behaviour of investors versus the behaviour of depositors.

4.2.16 One *JIB* questioned the restriction of operational deposits to non-pooled accounts.

JFSC response

4.2.17 We agree that accounts presenting the same risk should be treated similarly and therefore will modify guidance to enable pooled accounts to be treated as operational deposits (similarly to the outcome regarding *fiduciary deposits*). This will be subject to the provision that they are separated from any non-operational deposits from the same customer – a pooled account that mixes both types of funding will not be eligible to be treated as operational.

4.2.18 One *JIB* questioned the guidance on inflows and challenged the 100% inflow assumption on non-specific maturity lending to financial institutions.

JFSC response

4.2.19 The proposals reflect the *LCR Standard* in this area. When the completion guidance is published, we will invite feedback on specific definitions, enabling any uncertainty to be addressed.

4.2.20 If a *JIB* considers that the 100% inflow assumption is not appropriate, it should assess this in its *ICAAP* – the 100% being a maxima that can and should be challenged if its assessment warrants it.

- 4.2.21 Respondents expressed concerns about the availability of historic outflow data, the amount of work required to reconstitute historic datasets already built to support *LBA* applications and the exclusion of inflows when quantifying historical outflow percentages.

JFSC response

- 4.2.22 Recognising the amount of work involved, it is now intended to defer consideration until *ICAAPs* begin to be submitted after 1 January 2019 (see **Section 3**).
- 4.2.23 Stress testing is the principal driver for consideration of the appropriateness of outflows. This should take into account all factors, with the aim of arriving at an assessment of the possible outflows in the event of a significant stress period and a three notch downgrade. This is extremely unlikely to be reflected in data sets provided – at best, historical data will only provide a lower bound.
- 4.2.24 Instead, this analysis is intended to provide comparable data on the relative stickiness of deposits across different categories and the *JFSC* with data that is comparable between *JIBs*.
- 4.2.25 As such, the methodology is intended to be simple and replicable for all *JIBs*, relying on the likely availability of account balances for month ends.
- 4.2.26 *JIBs* will be able to use their own methodologies as well but provision of historical data using a common approach will be established as guidance, for the reasons given here, with details to be provided in the *Pillar 2 Guidance note*.
- 4.2.27 Inflows are not excluded totally – if an account sees large outflows and inflows over a month these would net to some extent and this will be taken into account in the calculation. However, a net inflow for an account will have zero effect beyond such netting.
- 4.2.28 The intention in this is to determine the extent to which funds leave the *JIB* in normal times (and conversely not to take into account the extent to which *JIBs* attract funds in normal times), which we consider to be an appropriate measure of the stickiness of depositors.

5 Other responses from JIBs

5.1 Treatment of large deposits from small business customers

- 5.1.1 One JIB challenged the lack of adjustment for deposits from small businesses that exceed €1 million when aggregated with any other deposits from the small business and any connected parties. Apart from the reporting practicalities, they suggested that these should be treated the same as large corporate customers.

JFSC response

- 5.1.2 This point is accepted. The reporting guidance will be revised to indicate that such deposits will be reported as unsecured wholesale deposits, alongside other deposits from large corporate customers.

5.2 Concentration limits

- 5.2.1 On the subject of having an overall concentration limit, several *JIBs* expressed concern regarding the operation of a cap, how the fixed cap of £20 million differed to the “significant” level of 1% of a *JIB’s* balance sheet and the impact, particularly compared to other jurisdictions that do not operate similar caps.

JFSC response

- 5.2.2 The *JFSC* will require *JIBs* to apply a cap. Evidence collected points towards larger deposits being less stable in a crisis and for smaller banks there is an additional concern regarding concentration.
- 5.2.3 The proposal will be revised to enable *JIBs* to adopt individual approaches to addressing both impacts. These must be documented within their *ICAAPs*. The approach must have the effect of ensuring that no adjustment with respect to one customer or group of connected customers exceeds £20 million or 1% of the *JIB’s* balance sheet if this is smaller (only impacting *JIBs* with a balance sheet of £2 billion or less).
- 5.2.4 For example, if an *LCR* adjustment for a particular deposit category was 50%, one possible approach would be to state that the amount of a maturing deposit to be included in the *LCR* will be the higher of (1) 50% of the maturing balance or (2) the maturing balance less £20 million. This will be detailed in the *Pillar 2 Guidance Note*.
- 5.2.5 Reporting of concentrations is distinct to this, addressing all funding provided by a single customer, with the intention of supporting a wider assessment of a *JIB’s* liquidity. For this purpose, 1% of balance sheet is considered to be appropriate as a concentration measure, as proposed in *CP3*.

5.3 LMR alternative (permitting recognition of inflows)

- 5.3.1 One respondent asked why we did not propose including inflows within the local definition of *HQLAs* (subject to a specific regulatory approval) rather than the proposed *LMR* alternative to the *LCR*.

JFSC response

- 5.3.2 The future work required mainly relates to the regulatory approval. The *LMR* proposal is favoured over the alternative proposed by the respondent as it avoids any ambiguity in reporting terminology – *HQLAs* are not the same thing as inflows.
- 5.3.3 One *JIB* queried the restriction proposed on use of the *LMR*, to only banks that had received permission from the *JFSC* and on the condition that the relevant risks arising from reliance are covered in its *ICAAP*.
- 5.3.4 One *JIB* sought clarification of why it was proposed to allow use of the *LMR* in cases where the *LCR* applied on consolidation, contrasting this with the *EU* regulations that further restricted application.

JFSC response

- 5.3.5 The restriction is intended to ensure that *JIBs* that use the *LMR* consider the related risks in their *ICAAPs* (such as the risk of delay of payment etc), whereas an *LCR* bank's focus would be on the marketability of its *HQLA* holdings. Further guidance will be provided in the *Pillar 2 Guidance Note*.
- 5.3.6 The eligibility restriction is intended to ensure that at the group level the *LCR* applies, as required in the *LCR Standard*, and a Concession Limit exists for the counterparty. In such cases, it is considered reasonable to permit inflows to be reflected, as there is an assurance that group liquidity is being appropriately supervised and the framework around Concession Limits provides an avenue to ensure that the supervisor of the counterparty is aware of the reliance.

5.4 HQLA rules

- 5.4.1 One respondent noted that the proposals would typically lead to *JIBs* becoming exposed to risks relating to security holdings, and that the markets for such securities have been impacted by Quantitative Easing (**QE**), which when taken together would lead to increased riskiness

JFSC response

- 5.4.2 These are reasonable assumptions. The riskiness will have to be assessed by each *JIB* in its *ICAAP*, including both the capital impact of the possibility of losses arising from revaluation of securities or the liquidity impact of *HQLA* being harder to sell in the event of the reversal of *QE*. The level of scrutiny and the impact of risks will vary from bank to bank and the *JFSC* will focus on this area in reviews of *ICAAPs* for *LCR* banks.
- 5.4.3 One *JIB* sought clarity regarding what should be regarded as a "large, deep and active" market, and suggested that this be quantified by reference to, for example, the issuance size of the security or the "*Bloomberg Valuation Score*".

JFSC response

5.4.4 A single measure such as issue size would not always be relevant or sufficient, given the differing natures of secondary markets worldwide. *JIBs* will be free to use appropriate metrics, with the *JFSC* having a limited oversight role through consideration of *ICAAPs*.

5.5 Term deposits

5.5.1 One *JIB* questioned the treatment of term deposits maturing outside of 30 days, noting that *CP3* suggests that these would attract a 0% outflow.

JFSC response

5.5.2 Term deposits maturing outside of 30 days would not impact on the *LCR* or *LMR*. The reporting guidance provided (**Appendix C** to *CP3*) uses the definition *Contractually Due Inflow/Outflow*, where for each item this is the total value of all cashflows falling due within the next 30 days, including interest payments.

6 Responses from OIBs

6.1 Summary of proposals in CP3

- 6.1.1 The main proposal is that *OIBs* will be required to disclose *LCR* and *NSFR* requirements imposed on them by their home regulator within their quarterly prudential reporting.
- 6.1.2 In the case that they are not subject to such requirements, it is proposed that alternative metrics are agreed between the *OIB* and the *JFSC*.
- 6.1.3 In both cases, the relevant metrics and key supporting data will be required to be reported.

6.2 Responses

- 6.2.1 Only a small number of *OIBs* responded, which together with broadly positive input from respondents, leads to the conclusion that *OIBs* accept the main proposal.
- 6.2.2 Two concerns were raised concerning (1) the proposals for banks that are not themselves subject to the *LCR/NSFR* and (2) conflicts with confidentiality, including where imposed by a bank's home supervisor.

JFSC Response

- 6.2.3 In cases where the *OIB* is not subject to the *LCR/NSFR* in its own right, alternatives will be required to be proposed by *OIBs*. These should normally be metrics required to be maintained by the home regulator but may also be group metrics, which might be appropriate where, for example, liquidity is only managed on a group basis.
- 6.2.4 The *JFSC* is unaware of any prohibition applied to the provision of such data to a regulator. Whilst information is sensitive, legal provisions typically enable disclosure where required by a supervisor.
- 6.2.5 In order to prepare for introduction, the *JFSC* will, in early 2018, contact all *OIBs* with a view to establishing whether they are subject to *LCR/NSFR* requirements and, if not, what other liquidity requirements they consider to be relevant for this purpose.
- 6.2.6 At the same time, they will be asked to provide an assessment of any relevant barriers to the provision of such data as part of their prudential reporting that cannot be overcome or to outline barriers that require actions to address.
- 6.2.7 On a case-by-case basis, appropriate metrics will be established by the end of 2018 and, using existing prudential reporting systems, *OIBs* will be required to report them within prudential reporting for December 2018, in the "Schedule of Memoranda" section of the "Other Prudential" Module.
- 6.2.8 In 2019, a revised system for *OIB* reporting will be rolled out, utilising the technology developed for *JIB* reporting, enabling full reporting of the metrics and relevant supporting data.

Appendix A

Respondents

JIBs:

- › Lloyds Bank International Limited
- › SG Kleinwort Hambros Bank (CI) Limited
- › Standard Bank Jersey Limited
- › The Royal Bank of Scotland International

OIBs:

- › Barclays Bank plc
- › Citibank N.A.
- › Citicorp Banking Corporation
- › EFG Private Bank (Channel Islands) Limited

Treasury Group of respondents:

- › JCAP Treasury Services
- › Ocorian Limited
- › Intertrust Group
- › Minerva Trust and Corporate Services Limited
- › Capita Asset Services
- › First Names Group