Jersey Financial Services Commission

Appendix C: LCR/LMR Guide

Consultation Paper No.3 2017

Basel III: Liquidity Management

[Draft] Guide on the calculation and reporting of the LCR or LMR, as applicable

Issued: 26 April 2017

Contents

1 Overview

1.1 Consultation

1.1.1 This document outlines draft requirements relating to the calculation of *LCR* or *LMR* (as applicable) for prudential reporting purposes. It is intended to incorporate this within the *JFSC's* prudential reporting requirements from December 2018. (For more details see **Section 4.9**). It is intended to serve as a draft of the final requirements, neither omitting nor including additional text that relates to the consultation process only (excepting this paragraph, which will be omitted).

1.2 Introduction

1.2.1 This document specifies the prudential reporting of the *LCR* or *LMR* (as applicable). *JIBs* are required to report consistent with it for each prudential period end date. In most cases, the reporting requirements are identical.

1.2.2 The effect of the *LMR* is to allow qualifying inflows from group banks to be treated similarly to *HQLA*, whereas in the *LCR* inflows are limited in effect. The *LCR* and *LMR* calculations are (respectively) set out in **Sections 7** and **8**.

1.2.3 *JIBs* are also required to monitor internally the appropriate ratio and notify the *JFSC* of any breach of the 100% minimum that applies in each case (See Sections **5** and **6** of the *Banking Codes*). This monitoring must be consistent with the requirements set out herein.

1.3 Reporting-specific guidelines

1.3.1 All reporting of amounts should be of the sterling equivalent amount, in round thousands.

1.3.2 Three principles should be applied to all reporting:

1.3.2.1 *JIBs* should adopt a conservative approach to uncertainty. In most cases, specific guidance is provided herein as to the outcome required but if this is not the case a conservative outcome should be assumed for reporting purposes unless the *JFSC's* permission is received to use another outcome;

1.3.2.2 *JIBs* must avoid double counting: Specifically, cash inflows relating to assets that have been recognised as *HQLA* must not also be recognised as inflows. This is most important when considering inflows but should also be considered when assessing outflows and *JIBs* should seek to identify situations where this principle is breached and consider the guidance provided herein regarding how to deal with the breach; and

1.3.2.3 *JIBs* should classify items consistently in accordance with this guidance for all relevant purposes: Specifically, classifications used for prudential reporting purposes should also be used for internal monitoring purposes and to identify historical data and, more generally, when carrying out assessment of the appropriateness of *Adjustment Factors* within its *ICAAP*).

1.3.3 Where specific guidance is not provided, *JIBs* should follow a course of action that is consistent with these principles and inform the *JFSC* of the specific issue and the course of action taken.

1.3.4 For each induvial items the following must be reported:

1.3.4.1 *Balance sheet asset, balance sheet liability* or *nominal* (as relevant);

1.3.4.2 *Contractually due inflow* or *contractually due outflow* (as relevant); and

1.3.4.3 *Predicted inflow* or *predicted outflow* (as relevant),

where:

› *Balance sheet assets/liability*: for each relevant asset/liability: this is the total value of the *JIB's* asset/liability measured at the balance sheet value;

› *Nominal* is defined for each classification of off-balance sheet items;

› *Contractually Due Inflow/Outflow*: for each item this is the total value of all cashflows falling due within the next 30 days, including interest payments; and

› *Predicted Inflow/Outflow*: for each item this is calculated as the Contractually Due Inflow/Outflow multiplied by the *Adjustment Factor* applicable to the item, determined as specified herein.

› The *Adjustment Factor* used for each item will be determined through the *JIB'*s *ICAAP* submission and *JFSC* review process (excepting instances where no adjustment to inflows or outflows is required/permitted), subject to the relevant minima / maxima set out herein.

2 Retail Outflows

2.1 Stable retail deposits: Individuals

Item	***Retail:1***
LCR Standard	75
Description:	Report deposits from individuals (i.e. placed directly by a natural person) where: › The deposit is taken in either Jersey, a CD branch, an EU branch or a branch in a jurisdiction where the JFSC has agreed that an equivalent DCS scheme exists › The deposit either (1) is on demand or (2) has an original maturity of one week or less. Report the lower of the balance deposited by the customer and the compensation limit of the applicable *DCS*. Report any amount exceeding the limit in ***Retail:2, Retail:*3** or ***Retail:4***, as appropriate. If a *JIB* 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 report the full amount in ***Retail:2, Retail:*3** or ***Retail:4***, as appropriate.
Adjustment Factor	Minimum of 5%

2.2 Less stable retail deposits: Individuals

Item	***Retail:2 "Less stable retail deposits: Individuals - lower adjustment"*** ***Retail:3 "Less stable retail deposits: Individuals – higher adjustment"*** ***Retail:4: "Less stable retail deposits: Individuals - no adjustment"***
LCR Standard	75
Description:	Report deposits from individuals (i.e. placed directly by a natural person) that are not eligible for inclusion in ***Retail:1***. JIB's must further divide the deposits as follows: › ***Retail:2*** and ***Retail:3*** should be used to report deposits where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* and this has been reviewed by the *JFSC* and agreement provided. › *JIBs* may identify either one such group, in which case all balances should be reported in ***Retail:2***, or two groups, with

Retail:2 used to report those for which a lower *Adjustment Factor* has been justified and ***Retail:3*** used to report those for which a higher *Adjustment Factor* has been justified.

- ***Retail:4*** should be used to report retail deposits (i.e. placed directly by a natural person) that are not eligible for inclusion in ***Retail:1, Retail:2 or Retail:3*** and must include all deposits that exceed £20 million.

Adjustment Factor	Minimum of 10%, (100% for ***Retail:4***)

2.3 Stable retail deposits: *Small businesses*

Item	***Retail:5***
LCR Standard	89
Description:	Report deposits placed directly with the *JIB* by *small businesses* that are not *financial institutions*, where: › The deposit is taken in an Isle of Man, *EU* branch or a branch in a jurisdiction where the *JFSC* has agreed that a *DCS* scheme exists that covers such deposits; › The deposit either (1) is on demand or (2) has an original maturity of one week or less. Report the lower of the balance deposited by the customer and the compensation limit of the applicable *DCS*. Report any amount exceeding the limit in ***Retail:6, Retail:7*** or ***Retail:8***, as appropriate. If a *JIB* 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 report the full amount in ***Retail:6, Retail:7*** or ***Retail:8***, as appropriate.
Adjustment Factor	Minimum of 5%

2.4 Less stable retail deposits: *Small businesses*

Item	***Retail:6 "Less stable retail deposits: Small businesses - lower adjustment"*** ***Retail:7 "Less stable retail deposits: Small businesses - higher adjustment"*** ***Retail:8: "Less stable retail deposits: Small businesses - no adjustment"***
LCR Standard	89

Description: Report deposits placed directly with the *JIB* by *small businesses* that are not *financial institutions* and are not eligible for inclusion in ***Retail:5***. *JIB's* must further divide the deposits as follows:

› ***Retail:6*** and ***Retail:7*** should be used to report deposits where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* and this has been reviewed by the *JFSC* and agreement provided.

› *JIBs* may identify either one such group, in which case all balances should be reported in ***Retail:6***, or two groups, with ***Retail:6*** used to report those for which a lower adjustment has been justified and ***Retail:7*** used to report those for which a higher adjustment has been justified.

› ***Retail:8*** should be used to report deposits from small businesses that are not eligible for inclusion in ***Retail:5, Retail:6*** or ***Retail:7*** and must include all deposits that exceed €1 million when aggregated with any other deposits from the *small business* and any connected parties.

Adjustment Factor: Minimum of 10%, (100% for ***Retail:8***)

2.5 Retail bonds

Item:

Retail:9 "Less stable retail: bonds - lower adjustment"

Retail:10 "Less stable retail: bonds - higher adjustment"

Retail:11: "Less stable retail: bonds - no adjustment"

LCR Standard: 110

Description: Report bonds where the bond is sold exclusively in the retail market and held in retail accounts (including *small business* customer accounts treated as retail).

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.

JIB's must divide the bonds as follows:

› Retail:9 and Retail:10 should be used to report bonds where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* and this has been reviewed by the *JFSC* and agreement provided.

› *JIBs* may identify either one such group, in which case all balances should be reported in Retail:9, or two groups, with

Retail:9 used to report those for which a lower adjustment has been justified and Retail:10 used to report those for which a higher adjustment has been justified.

› Retail:11 should be used to report bonds that are not eligible for inclusion in Retail:9 or Retail:10 and must include all bond holdings which, when aggregated with deposits from the same customer exceed (1) £20 million from individuals or (2) €1 million from a *small business* and any connected parties.

Adjustment Factor	Minimum of 10%, (100% for ***Retail:11***).

2.6 Total Retail outflow

Item	***Retail:12***
Description:	Sum of items ***Retail:1*** to ***Retail:11***, calculated for the *Predicted Outflow* only.

3 Other Liabilities

3.1 *Operational deposits*: DCS covered deposits

Item	***Liabilities:1***
LCR Standard	104
Description:	Report *operational deposits* (defined in **Appendix B**) where: › The deposit is taken in an Isle of Man, *EU* branch or a branch in a jurisdiction where the *JFSC* has agreed that a *DCS* scheme exists that covers such deposits; › The deposit either (1) is on demand or (2) has an original maturity of one week or less. Report the lower of the balance deposited by the customer and the compensation limit of the *DCS*. Report any amount exceeding the limit in ***Liabilities:2*** or ***Liabilities:3***, as appropriate. If a *JIB* 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 report the full amount in ***Liabilities:2*** or ***Liabilities:3***, as appropriate.
Adjustment Factor	Minimum of 5%

3.2 Operational deposits: other deposits

Item	***Liabilities:2 "Operational deposits: other deposits - adjustment"*** ***Liabilities:3: "Operational deposits: other deposits - no adjustment"***
LCR Standard	93
Description:	Report *operational deposits* (defined in **Appendix B**) that are not eligible for inclusion in ***Liabilities:1***. *JIB's* must further divide the deposits as follows: › ***Liabilities:2*** should be used to report deposits where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* and this has been reviewed by the *JFSC* and agreement provided. › ***Liabilities:3*** should be used to report operational deposits that are not eligible for inclusion in ***Liabilities:1*** or ***Liabilities:2***.
Adjustment Factor	Minimum of 25% for ***Liabilites:2***, 100% for ***Liabilities:3.***

3.3 Fiduciary deposits

Item	***Liabilities:4 "Fiduciary deposits: qualifying PIC Deposits"*** ***Liabilities:5: "Fiduciary deposits - no adjustment"***
LCR Standard	
Description:	Report *fiduciary deposits* (defined in **Appendix C**). *JIB's* must further divide the deposits as follows: › ***Liabilities:4*** should be used to report *fiduciary deposits* that meet the definition of a *PIC deposit* and any *JIB* specified criteria, where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* for such deposits and this has been reviewed by the *JFSC* and agreement provided. › ***Liabilities:5*** should be used to report *fiduciary deposits* that are not eligible for inclusion in ***Liabilities:4.***
Adjustment Factor	Minimum of 40% for ***Liabilities:4***, (100% for ***Liabilities:5***)**.**

3.4 Wholesale deposits: covered deposits

Item	***Liabilities:6***
LCR Standard	108
Description:	Report all deposits and unsecured funding from non-financial corporate customers and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not eligible for reporting elsewhere (*small business*, *operational* and *fiduciary deposits*), where: › The deposit is taken in an Isle of Man, ***EU*** branch or a branch in a jurisdiction where the *JFSC* has agreed that a *DCS* scheme exists that covers such deposits. › Any *JIB* specified criteria are met; and › The *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* for such deposits and this has been reviewed by the *JFSC* and agreement provided. Report the lower of the balance deposited by the customer and the compensation limit of the *DCS*. Report any amount exceeding the limit and any such deposits not meeting all the *JIB's* criteria in ***Liabilities:7*** or ***Liabilites:8***, as applicable.
Adjustment Factor	Minimum of 20%

3.5 Unsecured Wholesale

Item	***Liabilities:7 "Unsecured wholesale: adjustment"*** ***Liabilities:8 "Unsecured wholesale - no adjustment"***
LCR Standard	107-109
Description:	Report all deposits and unsecured funding from non-financial corporate customers and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not eligible for reporting elsewhere (*small business*, *operational*, *fiduciary deposits* and relevant covered deposits) deposits as follows: › ***Liabilities:7*** should be used to report such deposits that meet any *JIB* specified criteria, where the *JIB* has, in its *ICAAP*, justified applying a lower than 100% *Adjustment Factor* for such deposits and this has been reviewed by the *JFSC* and agreement provided. › ***Liabilities:8*** should be used to report deposits that are not eligible for inclusion in ***Liabilities:7.*** ***Liabilities:8*** should be used to report deposits and other funding from: › Other institutions (including banks, securities firms, insurance companies etc.); › Beneficiaries; › Conduits and special purpose vehicles; › Affiliated entities of the bank; and › Other entities, that: › Are not eligible to be reported elsewhere All notes, bonds and other debt securities issued by the bank (including structured products issued in bond form and short-term instruments such as certificates of deposit issued to customers) are included in this category regardless of the holder (unless eligible to be reported as retail, see **Section 2**).
Adjustment Factor	Minimum of 40% for ***Liabilities:7***, 100% for ***Liabilities:8.***

3.6 Secured funding run-off

Item	***Liabilities:9 "Secured wholesale: transactions backed by HQLA"*** ***Liabilities:10 "Secured wholesale - no adjustment"***

LCR Standard	112
Description:	**Liabilities:9** should be used to report maturing transactions, including repurchase, reverse repurchase and other securities financing transactions, that are backed by HQLA. Collateral swaps should be treated as repurchase or reverse repurchase agreements, as should any other transaction with a similar form. Additionally, collateral lent to a bank's customers to effect short 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 day time horizon. The *contractually due outflow* should be calculated based on the amount of funds raised through the transaction, and not the value of the underlying collateral. The *Adjustment Factor* for each transaction must be the haircut applying according to the HQLA rules (0% for transactions backed by level 1 HQLA). **Liabilities:10** should be used to report all other maturing secured transactions, including transactions where a bank has satisfied customers' short positions with its own long inventory. For the avoidance of doubt, this should include all funding from asset-backed securities, covered bonds and other structured financing instruments maturing within the 30-day period, when these instruments are issued by the *JIB* itself.
Adjustment Factor	Relevant *HQLA haircut* used for ***Liabilities:9***, 100% for ***Liabilities:10.***

3.7 Total outflow from other liabilities

Item	***Liabilitites:11***
Description:	Sum of items ***Liabilities:1*** to ***Liabilities:10***, calculated for the *Predicted Outflow* only.

4 Commitments

4.1 Committed credit and liquidity facilities

Item	***Commitments:1 "Committed credit and liquidity facilities"***
LCR Standard	126
Description:	***Commitments:1*** should be used to report committed amounts in accordance with **Appendix D.**
Adjustment Factor	Various, as derived for each transaction, calculated in accordance with **Appendix D.**

4.2 Committed facilitates to extend funds within a 30-day period.

Item	***Commitments:2 "Committed facilities: financial institutions"*** ***Commitments:3 "Committed facilities: non-financial institutions"***
LCR Standard	132 & 133
Description:	***Commitments:2*** should be used to report any contractual lending obligations to financial institutions not captured in any other categories. ***Commitments:2*** should be used to report the total of all contractual obligations to extend funds to retail and non-financial corporate clients within the next 30 calendar days (not captured in any other categories) less 50% of the total contractual inflows due in the next 30 calendar days from such clients (***inflows:3*** plus ***Inflows:6***), to the extent that this is a positive amount (do not report any negative result).
Adjustment Factor	100% for ***Commitments:2***, 50% for ***Commitments:3.***

4.3 Other contingent funding obligations

Item	***Commitments:4 "Other contingent funding obligations"***
LCR Standard	134
Description:	**Commitments:4** should be used to report committed amounts in accordance with **Appendix E**.
Adjustment Factor	Various, as derived for each transaction, calculated in accordance with **Appendix E**.

4.4 Total outflow from commitments

Item	***Commitments:5***
Description:	Sum of items ***Commitments:1*** to ***Commitments:4***, calculated for the *Predicted Outflow* only.

5 Derivatives and Other Outflows

5.1 Derivatives

Item	***Other:1 "Derivatives"***
LCR Standard	116
Description:	Report as *nominal* the total of all transactions that could give rise to an outflow. The *Contractually Due Outflow* reported should by, for each derivative instrument, any net 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. JIBs should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or falls in value of collateral posted. Options should be assumed to be exercised when they are 'in the money' to the option buyer. 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 *JIB*, if the *JIB* 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
Adjustment Factor	100%

5.2 Miscellaneous

Item	***Other:2 "Miscellaneous"***
LCR Standard	118 to 125
Description:	Other:2 should be used to report other indirect derivatives related cashflows and other miscellaneous outflows, calculated in accordance with **Appendix F**.
Adjustment Factor	See **Appendix F**.

5.3 Total other outflows

Item	***Other:3***
Description:	Sum of items ***Other:1*** and ***Other:2***, calculated for the *Predicted Outflow* only.

6 Inflows

6.1 Reverse repos, securities borrowing and margin lending

Item	***Inflows:1 "securities borrowing"***
LCR Standard	145-148
Description:	Report the contractually due inflow as being the amount receivable in the next 30 days.

The *Adjustment Factor* depends on the nature of the deal and on the collateral posted.

For maturing reverse repurchase or securities borrowing agreements secured by Level 1 HQLA assets, the *Adjustment Factor* is 0% - no inflow is recognised. Note that the security held versus these deals is counted within HQLA and hence this is consistent with the "no double-counting" principle.

For maturing reverse repurchase or securities borrowing agreements secured by Level 2 HQLA assets, the *Adjustment Factor* is the haircut applicable to the asset. 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.

For maturing reverse repurchase or securities borrowing agreements secured by non-HQLA assets, the *Adjustment Factor* is 100% - the inflow is fully reflected.

There are two special cases:

› Collateralised loans extended to customers for the purpose of taking leveraged trading positions (margin loans) should be treated as per the above where the loan is made against *HQLA* assets. However, for maturing margin loans made against non-*HQLA* collateral an adjustment factor of 50% (not 100%) applies; and

› 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, the *JIB* should assume that such reverse repo or securities borrowing arrangements will be rolled-over and will not give rise to any cash inflows (*Adjustment Factor* = 0%), reflecting its need to continue to cover the short position or to re-purchase the relevant securities. Short positions include both instances where in its 'matched book' the *JIB* has sold short a security outright as part of a trading or hedging strategy and instances where it 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)

Adjustment Factor	As applicable for each deal as set out above.

6.2 Facilities (Committed and Uncommitted)

Item	***Inflows:2 "facilities"***
LCR Standard	149
Description:	Report as the nominal all facilities granted to the *JIB* except any that qualify as *HQLA* (see below and **Appendix A** to the **HQLA Guide**). Report the amount that contractually could be drawn in the next 30 days as the *Contractually Due Inflow*. All facilities receive an *Adjustment Factor* of 0% and hence no *predicted inflow* will result. Where *JIBs* have been granted access to contractual liquidity facilities provided by a relevant central bank in connection with a branch where there is limited liquidity (see **Appendix A** to the **HQLA Guide**), these should be reported as *HQLA* and hence should not be reported here.
Adjustment Factor	0%

6.3 Retail and small business customer inflows

Item	***Inflows:3 "retail"***
LCR Standard	153
Description:	For the *Contractually Due Inflow*, report only inflows from fully performing loans that are classified as retail for credit risk purposes under the *JFSC's* published guidance on the standardised approach to credit risk. Inflows should only be allowed for at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, it should be assumed that the existing drawn element is rolled over and that any remaining facility is treated in the same way as a committed loan facility. Inflows from loans that have no specific maturity should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. Similarly, where a contract

provides for "on-demand" repayment, such as now sometimes seen with mortgage lending, it is proposed not to allow this to be assumed.

› The only exception is that minimum payments of principal, fee or interest associated with an open maturity loan may be included, to the extent that such payments are contractually due within 30 days.

Adjustment Factor 50%

6.4 Financial Institutions

Item ***Inflows:4 "financial institutions"***

LCR Standard 154

Description:

For the *Contractually Due Inflow*, report only inflows from fully performing loans to financial institutions and central banks. Inflows should only be allowed for at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, it should be assumed that the existing drawn element is rolled over and that any remaining facility is treated in the same way as a committed loan facility.

Inflows from loans that have no specific maturity should be included.

Operational deposits placed should be reported in ***inflows:***7.

Qualifying inflows should be reported in ***inflows:5***.

Adjustment Factor 100%

6.5 Qualifying inflows

Item ***Inflows:5 "qualifying inflows"***

LCR Standard 154

Description:

For the *Contractually Due Inflow*, report only inflows from banks that are:

› Contractually due within one week (5 working days);

› Group banks; and

› Part of a group that is subject to the LCR on a consolidated basis.

Inflows should only be allowed for at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, it should be assumed that the existing drawn element is rolled over and that any remaining facility is treated in the same way as a committed loan facility.

Inflows from loans that have no specific maturity should be included.

Operational deposits placed should be reported in ***inflows:7***.

Adjustment Factor	100%

6.6 Non-financial institutions

Item	***Inflows:6 "Non-financial institutions"***
LCR Standard	154
Description:	For the *Contractually Due Inflow*, report only inflows from fully performing loans to customers that do not fall within ***inflows:3, inflows:4*** or ***inflows:5***. Inflows should only be allowed for at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, it should be assumed that the existing drawn element is rolled over and that any remaining facility is treated in the same way as a committed loan facility. Inflows from loans that have no specific maturity should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. Similarly, where a contract provides for "on-demand" repayment, such as now sometimes seen with mortgage lending, it is proposed not to allow this to be assumed. The only exception is that minimum payments of principal, fee or interest associated with an open maturity loan may be included, to the extent that such payments are contractually due within 30 days.
Adjustment Factor	50%

6.7 Maturing securities

Item	***Inflows:7 "maturing securities"***
LCR Standard	155

Description:	For the *Contractually Due Inflow*, report only inflows from securities that mature in the next 30 days but that have not been reported within *HQLA*. Inflows should only be allowed for at the latest possible date, based on the contractual rights available to counterparties.
Adjustment Factor	100%

6.8 Operational deposits

Item	***Inflows:8 "operational deposits"***
LCR Standard	156
Description:	For the *Contractually Due Inflow*, report inflows due from operational deposits (see **Appendix B**) placed with counterparty banks) that mature in the next 30 days.
Adjustment Factor	0%

6.9 Cash inflows from derivatives

Item	***Infows:9 "Derivatives"***
LCR Standard	158/116
Description:	Report as *nominal* the total of all transactions that could give rise to an inflow. The *Contractually Due Inflow* reported should be, for each derivative instrument, 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. *JIBs* should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or falls in value of collateral posted. Options should be assumed to be exercised when they are 'in the money' to the option buyer. 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 *JIB*, if the *JIB* 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

Adjustment Factor	100%

6.10 Other cash inflows

Item	***Infows:10 “Other”***
LCR Standard	158/116
Description:	JIB’s should report other amounts contractually due but should be aware that the Adjustment Factor for such balances is 0% unless otherwise agreed by the *JFSC*.
Adjustment Factor	0% unless otherwise agreed by the *JFSC*

6.11 Total Inflows

Item	***Infows:11 “Total”***
Description:	Total of items ***Inflows:1*** to ***Inflows:10***, calculated for the *Predicted Inflow Due* only.

7 LCR Calculation

7.1 Overview

7.1.1 Only report the *LCR* calculations detailed below if the reporting *JIB* does not have permission to use the *LMR*.

7.2 Total Outflows

Item	***LCR:1***
Description:	Calculate for the *Predicted Outflow* only as the sum total of outflows recorded for "Retail" (***Retail:6***), "Other Liabilities" (***Other:7***), "Commitments" (***Commitments:4***) and "Derivatives and Other Outflows" (***Other:3***).

7.3 Capped Inflows

Item	***LCR:2***
Description:	Calculate for the *Predicted Inflow* only as the lower of: › "Total Inflows" (***inflows:11***); and › 75% of "Total Outflows" (***LCR:1***).

7.4 Net Outflow

Item	***LCR:3***
Description:	Calculate for the *Predicted Outflow* only as "Total Outflows" (***LCR:1***) minus "Capped Inflows" (***LCR:2***)

7.5 LCR

Item	***LCR:4***
Description:	Calculate the *LCR* as being the *Haircut Amount* calculated for "Total HQLA" ("HQLA Guide", ***HQLA:7***) divided by Net Outflows (***LCR:3***)

8 LMR Calculation

8.1 Overview

8.1.1 Only report the *LMR* calculations detailed below if the reporting *JIB* has permission from the *JFSC* to use the *LMR*.

8.2 Total Outflows

Item	***LMR:1***
Description:	Calculate for the *Predicted Outflow* only as the sum total of outflows recorded for "Retail" (***Retail:6***), "Other Liabilities" (***Other:7***), "Commitments" (***Commitments:4***) and "Derivatives and Other Outflows" (***Other:3***).

8.3 Capped Inflows

Item	***LMR:2***
Description:	Calculate for the *Predicted Inflow* only as the lower of › "Total Inflows" (***inflows:11***) minus "Qualifying Inflows" (***inflows:5***); and › 75% of "Total Outflows" (***LMR:1***)

8.4 Capped Inflows plus Qualifying Inflows plus HQLA

Item	***LMR:3***

Description:	Calculate for the *Predicted Inflow* only, being:
	› The sum of the Predicted Inflow for:
	  › "Capped Inflows" (***LMR:2***); and
	  › "Qualifying Inflows" (***inflows:5***); plus
	› The *Haircut Amount* calculated for "Total HQLA" ("Total HQLA" ("HQLA Guide", ***HQLA:7***).

8.5 LMR

Item	***LMR:4***
Description:	Calculate the *LMR* as being "Capped Inflows plus Qualifying Inflows plus HQLA" (***LMR:3***) divided by Total Outflows (***LMR:1***)

Appendix A Retail Deposits

A.1 Stable deposits

A.1.1 The *JIB* must consider available evidence and determine if 5% appears appropriate. If not, it must determine what higher *Adjustment Factor* should apply. This should be documented in its ICAAP and will be subject to *JFSC* review.

A.2 Less stable deposits

A.2.1 For less stable deposits, the minimum projected *Adjustment Factor* of 10% must be considered in each *JIB's ICAAP* and will be agreed by the JFSC following its review.

A.2.2 *JIBs* must classify such deposits into buckets: lower, higher, and no adjustment. It may use only the first and last buckets (if it does not wish to distinguish further) and may decide that no adjustment is appropriate for all retail deposits.

A.2.3 For the first two of these buckets, the *JIB* must demonstrate in its *ICAAP* that a specific *Adjustment Factor* is appropriate, after considering stress testing and historical data.

A.2.4 The last bucket is for deposits where the *JIB* considers that no adjustment is appropriate (and hence 100% of the contractually due amount should be included). This must include large deposits from individuals (at least those exceeding £20 million) and from small businesses. Please note that the definition of a small business excludes any customer or group of customers that have deposits that exceed €1 million.

Appendix B Operational Deposits

B.1 Qualifying criteria

B.1.1 Activities in this context refer to clearing, custody and cash management activities that meet the following criteria:

- 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;
- The services are provided under a legally binding agreement to institutional customers; and
- 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.

B.1.2 Qualifying operational deposits generated by such an activity are ones where:

- 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
- 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.

B.1.3 *JIBs* 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 (eg 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.

B.1.4 Notwithstanding these operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services, it must be treated as if there were no operational activity for the purpose of determining run-off factors.

B.2 Relevant activities

B.2.1 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:

- 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;
- 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
- 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.

Appendix C Fiduciary Deposits

C.1 Definition

C.1.1 Fiduciary deposits, for these purposes, include:

› "Swiss fiduciary deposits": amalgamated customer deposits placed by banks with other banks;

› Deposits from trustees on behalf of trusts, whether pooled or not;

› Deposits placed by investment firms on behalf of one or more clients, within an investment mandate; and

› Any other deposit that is known to be managed by a financial entity on behalf of a customer.

C.2 Treatment

C.2.1 The Adjustment Factor for fiduciary deposits must be 100% except with respect to qualifying outflows relating to *PIC Deposits*.

C.2.2 The relevant conditions are:

› The underlying PIC must be a company or a trust whose owner or beneficial owner, respectively, is a natural person or a group of closely related natural persons, which was set up with the sole purpose of managing the wealth of the owners and which does not carry out any other commercial, industrial or professional activity. The purpose of the PIC may include other ancillary activities such as segregating the owners' assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided these are connected to the main purpose of managing the owners' wealth;

› Deposits must either:

1. be held on a designated account (not pooled) and not be managed through a brokerage arrangement or

2. be placed directly by the PIC (for example, where the financial entity manages the PIC);

› The adjustment should only be applied to deposits where the choice of bank is not actively managed in order to achieve an investment return. *JIB*s must specify criteria in their *LMP*s and reflect these when considering liquidity risk in their *ICAAP*. Deposits representing long-term investments, which must include all deposits placed with an original maturity exceeding three months, may not be adjusted; and

› The deposit mandate must either

1. not require the deposits to be moved in the event of a downgrade below a certain level or

2. in the case that it does require this, the *JIB* must be more than three notches above that level.

C.2.3 Where these conditions are met, the *JIB* should apply an adjustment in accordance with any agreed by the *JFSC* following review of its *ICAAP*, with a minimum Adjustment Factor of 40% applying in all cases.

Appendix D Committed Credit and Liquidity Facilities

D.1 Definition and *nominal*

D.1.1 For these purposes, credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale customers.

D.1.2 Only include here contractually irrevocable (committed) or conditionally revocable agreements to extend funds in the future. 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 as "*Other contingent funding obligations*".

D.1.3 All facilities that are undrawn and may be drawn within the 30 day period should be reported in the *nominal* figure, regardless of any facility maturity date.

D.2 Calculation of contractually due outflow

D.2.1 The *contractually due outflow* should be calculated as the *nominal* less any *HQLA* that has already been posted as collateral by a counterparty or that are contractually obliged to be posted when the counterparty draws down the facility (eg a liquidity facility structured as a repo facility), if the *JIB* 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. The collateral can be netted against the outstanding amount of the facility to the extent that this collateral is not already counted in the stock of *HQLA*, in line with the principle that items cannot be double-counted.

D.2.2 A liquidity facility is defined as any committed, undrawn credit 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 (eg pursuant to a commercial paper programme, secured financing transactions or obligations to redeem units).

D.2.3 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 liquidity 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) would be treated as a committed credit facility with its associated drawdown rate. General working capital facilities for corporate entities (eg revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

D.2.4 Notwithstanding the above, any facilities provided to hedge funds, money market funds and special purpose funding vehicles or conduits, or other vehicles used to finance the *JIB's* own assets, should be captured in their entirety as a liquidity facility to other legal entities.

D.2.5 For that portion of financing programmes that are maturing or have liquidity puts that may be exercised in the 30-day horizon, *JIBs* that are providers of associated liquidity facilities do not need to double count the maturing financing instrument and the liquidity facility.

D.3 Calculation of Adjustment Factors

D.3.1 Committed credit and liquidity facilities to retail and small business customers: 5% *Adjustment Factor*.

D.3.2 Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks: 10% *Adjustment Factor*

D.3.3 Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: 30% *Adjustment Factor*

D.3.4 Committed credit and liquidity facilities extended to banks subject to prudential supervision: 40% *Adjustment Factor*

D.3.5 Committed credit facilities to other financial institutions, including securities firms, insurance companies, fiduciaries, and beneficiaries : 40% *Adjustment Factor*

D.3.6 Committed liquidity facilities to other financial institutions, including securities firms, insurance companies, fiduciaries, and beneficiaries: 100% *Adjustment Factor*

D.3.7 Committed credit and liquidity facilities to other legal entities (including SPEs, conduits and special purpose vehicles, and other entities not included in the prior categories): 100% *Adjustment Factor*

Appendix E Other Contingent Funding Obligations

E.1 Definition and *nominal*

E.1.1 Contingent funding obligations may be either contractual or non-contractual and are not pure 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.

E.1.2 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.

E.1.3 In all cases, the nominal should be the total undrawn amount that could be drawn within the 30 day period and the contractually due amount should normally be equivalent to the nominal, save for unusual circumstances where the draw would require the provision of collateral in the form of HQLA (see **D.2.1**)

E.1.4 Non contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments, which are not consolidated, should be reported where there is the expectation that the *JIB* will be the main liquidity provider when the entity is in need of liquidity.

E.2 Adjustment Factors

E.2.1 Each *JIB* should consider which of these other contingent funding obligations may materialise under the assumed stress events in its *ICAAP*. *JIBs* may always use a 100% Adjustment Factor or may choose to use the adjustment factors applying to similar committed facilities or may seek to determine them based only on stress testing.

E.2.2 In the case of contingent funding obligations stemming from trade finance instruments, the floor for the rate is 5%. Trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services, such as:

- documentary trade letters of credit, documentary and clean collections, import bills, and export bills; and
- guarantees directly related to trade finance obligations, such as shipping guarantees.

E.2.3 Lending commitments, such as direct import or export financing for non-financial corporate firms, are excluded from this treatment and banks must apply the draw-down rates specified in **Section 4.**

E.2.4 Other contingent funding obligations for which run-off rates must be determined should include products and instruments such as:

› unconditionally revocable “uncommitted" credit and liquidity facilities (capped at the rate that would apply if the facility was fully committed;

› guarantees and letters of credit unrelated to trade finance obligations;

› non-contractual obligations such as:

  › potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities;

  › structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs); and

  › 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.

E.2.5 For issuers with an affiliated dealer or market maker, there may be a need to include part of the outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than 30 calendar days, to cover potential repurchase.

E.2.6 Non contractual obligations where customer short positions are covered by other customers’ collateral: A minimum 50% run-off factor of the contingent obligations should be applied where *JIBs* 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.

Appendix F Miscellaneous Outflows

F.1 Explanation

F.1.1 This appendix establishes the outflow percentages that would apply to cashflow items not connected with maturing funding, commitments or directly resulting from booked derivatives. In all cases, the *nominal* should be the total volume of relevant instrument and, unless otherwise stated, the *Adjustment Factor* applying should be 100%.

F.2 Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts

F.2.1 *Contractually due outflow*: 100% of the amount of collateral that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade from the current position.

F.2.2 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 should consider impacts on all types of margin collateral and contractual triggers which change rehypothecation rights for non-segregated collateral.

F.3 Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivatives and other transactions

F.3.1 *Contractually due outflow*: 20% of the value of non-Level 1 posted collateral.

F.3.2 This 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 can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account.

F.4 Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty

F.4.1 *Contractually due outflow*: 100% of the non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements.

F.5 Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted

F.5.1 *Contractually due outflow*: 100% of the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.

F.6 Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets

F.6.1 *Contractually due outflow*: 100% of the amount of *HQLA* collateral that can be substituted for non-*HQLA* assets without the bank's consent that have been received to secure transactions that have not been segregated.

F.7 Increased liquidity needs related to market valuation changes on derivatives or other transactions

F.7.1 *Contractually due outflow*: Report as equal to the *nominal*

F.7.2 Rather than applying an *Adjustment Factor,* calculate the *predicted outflow* as being the largest absolute net 30-day collateral flow seen during the preceding 24 months. The absolute net collateral flow is based on both realised outflows and inflows. JIB's need only recalculate this for each prudential reporting period, maintaining this value for all internal monitoring until next recalculated.

F.8 Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities

Potential Risk Element	**Contractual due outflow**
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

F.8.1 *JIBs* having structured financing facilities that include the issuance of short-term debt instruments, such as asset backed commercial paper, should fully consider the potential liquidity risk arising from these structures. These risks include, but are not limited to (i) the inability to refinance maturing debt and (ii) 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).

F.8.2 Where the structured financing activities of a bank are conducted through a *SPE* (such as a special purpose vehicle, conduit or structured investment vehicle), the *JIB* should, 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 require liquidity to be provided to the SPE, irrespective of whether or not the *SPE* is consolidated.