Jersey Financial Services Commission

Guidance Note

Prudential Reporting of Liquidity Ratios

Guidance on the calculation of the liquidity coverage ratio (**LCR**) or liquidity mismatch ratio (**LMR**), as applicable, in connection with the Code of Practice for Deposit-taking Business (**Banking Code**), as applicable to persons incorporated in Jersey that are registered under the Banking Business (Jersey) Law 1991 (**JIBs**). This includes the determination of High Quality Liquid Assets (**HQLA**), all definitions and all calculations. In addition this document establishes detailed requirements relating to the prudential reporting of the Net Stable Funding Ratio (**NSFR**).

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GLOSSARY OF TERMS

Adjusted Amount	For each component of *HQLA*, the amount that is eligible, after considering the general and operational requirements and the *JIB's* diversification policy and any resultant limits that are applicable but not any haircuts that are applicable (see *Haircut Amount*)
ASF Factor	Multiplier used in the *NSFR* to compute *Available Stable Funding* from each *Value*.
Available Stable Funding	The numerator in the *NSFR* calculation.
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
Banking Code	Code of Practise for Deposit-taking Business, published by the *JFSC* and available at: http://www.jerseyfsc.org/the-commission/general-information/codes-of-practice/
Basel Committee	Basel Committee on Banking Supervision
CDs	Crown Dependencies
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
DCS	Depositors Compensation Scheme
Financial institutions	Banks, other deposit-taking institutions and companies, such as investment or securities firms, trust and companies services providers, insurance or reinsurance companies, pension/superannuation funds, that are subject to prudential supervision by the *JFSC* or an overseas regulator
haircut	Used to refer to the *JFSC* specified (in the HQLA Guide) percentage by which the *Adjusted Amount* for an *HQLA* item should be reduced to arrive at the *Haircut Amount.*
Haircut Amount	The value of an asset for *HQLA* purposes, determined after applying the relevant specified *haircut*
HQLA	High Quality Liquid Assets
ICAAP	A *JIB's* documented self-assessment of capital and liquidity adequacy - see section 5.2 of the *Banking Code*
JFSC	Jersey Financial Services Commission
JIB	A Jersey incorporated company that is registered by the *JFSC* to undertake deposit-taking business
Large adjustment rule.	Rule that the maximum adjustment permitted is £20 million per person or group of connected persons

LCR	proposed local standard set out in this consultation, closely aligned to the *Basel Committee's LCR Standard*
LCR Disclosure Rules	"*Liquidity coverage ratio disclosure standards*", issued by the Basel Committee in January 2014, revised March 2014
LCR Standard	"*Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*", issued by the Basel Committee in January 2013. Available at: http://www.bis.org/publ/bcbs238.htm
Level 1 HQLA	The highest category of *HQLA*, to which the lowest *haircuts* and no restrictions apply
Level 2 HQLA	Lower quality *HQLA*, to which higher *haircuts* apply and a restriction that the total of all *Level 2 HQLA* may not contribute more than 40% of total *HQLA*
Level 2A HQLA	*Level 2A HQLA* that are not classified as *Level 2B HQLA* (and hence not subject to further restrictions)
Level 2B HQLA	Lowest quality *HQLA*, to which higher *haircuts* and apply and further restrictions
LMR	Liquidity Mismatch Ratio, an alternative proposed local standard that dispenses with the 75% cap (in the *LCR*) on projected inflows from group banks, subject to certain conditions
LTV	loan-to-value
MDB	Multilateral Development Bank
Nominal	Proxy for the scale of off-balance sheet items, defined herein for each classification of off-balance sheet items
NSFR	Net Stable Funding Ratio
NSFR Standard	"*Basel III: The Net Stable Funding Ratio*", issued by the *Basel Committee* in October 2014. Available at: • http://www.bis.org/bcbs/publ/d295.htm .
PSE	Public sector entity
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
Realisable Value	For each component of *HQLA*, the amount that is potentially eligible, based on the value that can be realised (by sale or repo), being the higher of (if applicable) the *repo value* and the *sale value*
Rehypothecated Holdings	For each component of *HQLA*, any relevant amounts received as collateral and subsequently rehypothecated by the *JIB*, net of any re-pledged as collateral
repo value	the maximum amount that would be received under a repo, applying prevailing market values and haircuts

Required Stable Funding	The denominator in the *NSFR* calculation.
RSF Factor	Multiplier used in the *NSFR* to compute *Required Stable Funding* from each *Value*
RMBS	Residential mortgage backed securities
sale value	The current bid-price of the asset
short term transactions	Secured funding, secured lending and collateral swap transactions with a maturity date up to and including 30 calendar days
Small businesses	Those businesses where either: • the business borrows money from the *JIB* and that borrowing meets the rules for the definition of "retail" for capital adequacy purposes; or • the business does not borrow from the *JIB* but its deposits are managed as retail deposits, provided that (in both cases) the total aggregated funding raised from any one business or group of connected businesses does not exceed €1 million (on a consolidated basis where applicable).
Sound Principles	"*Principles for Sound Liquidity Risk Management and Supervision*", issued by the *Basel Committee* in September 2008. Available at: http://www.bis.org/publ/bcbs144.htm
Unencumbered Holdings	For each component of *HQLA*, the *JIB's* own holdings, net of any amount pledged as collateral
Value	In the *NSFR*, defined as the *balance sheet asset*, *balance sheet liability* or *nominal*, as relevant

Contents

1 Summary

Introduction

1.1 This document specifies requirements that apply to JIBs relating to internal monitoring and prudential reporting of:

1.1.1 the *LCR/LMR* - the liquidity ratios for which a minimum is established in Section 5 of the Banking Code - including *HQLA*; and

1.1.2 the *NSFR*.

1.2 The relevant sheets in the Prudential Return are:

1.2.1 *HQLA*: sheet '1.1 HQLA'

1.2.2 *LCR* / *LMR* (as appropriate to the *JIB*): sheet '1.2 LCR-LMR'

1.2.3 *NSFR*: sheet '1.3 NSFR'

Overview

1.3 The Banking Code requires JIBs to internally monitor the LCR/LMR daily and notify the JFSC if limits are not complied with or buffers not maintained. (See Sections 5 and 6 of the Banking Codes). This reporting must be consistent with the definitions set out herein.

1.4 The requirements regarding the calculation and reporting of HQLA are based on the international standards promulgated by the Basel Committee on Banking Supervision (Basel Committee)[1].

1.5 The specification defines both the definitions of the component items and the calculations that must be used to derive total HQLA and the LCR/LMR. Where component items are not relevant to a JIB, the JIB's internal monitoring need not reflect the term.

1.6 The Banking Code also requires JIBs to submit prudential returns to the JFSC, consistently with this document, for each prudential period end date. The specific mechanics of this are set out in the "Prudential Reporting Guide for JIBs", issued by the JFSC and available at:

1.6.1 http://www.jerseyfsc.org/banking-business/prudential-reporting/

1.7 For prudential reporting purposes only, this Guide also specifies the reporting of the *NSFR*.

1.8 **Appendices A** to **C** list all items defined herein.

Layout of this Guide

1.9 Sections 2 to 6 and Appendix D to Appendix F relate to the computation of HQLA.

1.10 Sections 7 to 14 and Appendix G to Appendix L relate to the subsequent calculation of the LCR/LMR, as applicable.

1.11 Sections 15 and 16 relate to the prudential reporting of the NSFR.

2 HQLA

Overview

2.1 The requirements regarding the calculation and reporting of *HQLA* are based on those set out in paragraphs 24 to 54 of the *LCR Standard*. **Appendix D** addresses problems that arise where a jurisdiction has a shortage of qualifying assets (relevant for banks that have branches in jurisdictions where this is the case).

2.2 There are two categories that can be included in the stock of *HQLA*. Assets can be included in each category if the bank is holding them on the reporting date, irrespective of their residual maturity. *Level 1 HQLA* can be included without limit, while *Level 2 HQLA* can only comprise up to 40% of the stock.

2.3 Within *Level 2 HQLA*, there is an additional class – *Level 2B HQLA* (all other *Level 2 HQLA* being described as *Level 2A HQLA*). These can, in total, comprise no more than 15% of the total stock of *HQLA*. They must also be included within the overall 40% cap on *Level 2 HQLA*.

2.4 The 40% cap on *Level 2 HQLA* and the 15% cap on *Level 2B HQLA* must be determined after the application of required haircuts, and after taking into account the unwinding of short-term securities financing transactions and collateral swap transactions maturing within 30 calendar days that involve the exchange of *HQLA*.

General requirements

2.5 Assets are considered to be *HQLA* if they can be easily and immediately converted into cash and at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetised and the timeframe considered. There are certain assets that are more likely to generate funds (through an outright sale or a repo transaction) at or near face value even in times of stress.

2.6 **Appendix E** sets out the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses. These are based on the *LCR Standard*. *JIBs* will be required to exclude potential *HQLA* items that do not have the requisite characteristics, even if they meet other criteria.

Operational requirements

2.7 All *HQLA* is subject to the operational requirements set out in **Appendix F.** The purpose of the operational requirements is to recognise that not all assets outlined in **Sections 2**, **3** and **4** (those that meet the asset class, risk-weighting and credit-rating criteria) should be eligible to be included in the stock of *HQLA*, because there are other operational restrictions that can prevent timely monetisation during a stress period.

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

Diversification

2.9 The stock of *HQLA* should be well diversified across asset classes and within each. Although some asset classes are more likely to remain liquid irrespective of circumstances, it is not possible to know with certainty which ones will.

2.10 Each *JIB* is required to develop policies and put appropriate limits in place in order to avoid concentration of asset and issuer types and currencies (consistent with the distribution of net cash outflows by currency) within asset classes. This should be documented in its *LMP* and reflected in its *ICAAP* document, within a section on Liquidity risk.

Prudential reporting specific guidelines

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

2.12 For individual items, an *Unencumbered Holdings; Rehypothecated Holdings*, *Realisable Amount*, *Adjusted Amount* and *Haircut Amount* are required to be reported, as follows:

2.12.1 **Unencumbered Holdings:** for each item, this is the total value of the *JIB's* own holding measured at their balance sheet value less any amounts pledged as collateral.

2.12.2 **Rehypothecated Holdings**: for each item, this is the total value of rehypothecated stock held by the JIB following the receipt of collateral (including as a result of securities financing transactions), less any amounts pledged as collateral, measured at nominal value.

2.12.3 **Realisable Value:** for each item this is the total value of all relevant holdings (i.e. holdings falling into the *Unencumbered Amount* or *Rehypothecated Amount*) measured at the higher of (if applicable) the:

- **Repo value** (only assets for which a deep and active repo market exists): the maximum amount that would be received under a repo, applying prevailing market values and haircuts; and
- **Sale value**: the current bid-price of the asset.

2.12.4 **Adjusted Amount**: for each item this is the amount that is eligible, after considering the general and operational requirements and the *JIB's* diversification policy and any resultant limits that are applicable.

2.12.5 **Haircut Amount:** for each item this is calculated as the *Adjusted Amount* multiplied by 100% less the applicable **haircut** (the *haircuts* specified herein range from 0% to 100%).

3 Level 1 HQLA

Items L1.1 to L1.6

Item	Guidance
L1.1	**Coins and Banknotes.** Coins and banknotes currently held by the *JIB*. Calculated in the Prudential Return, being equal to the Total for Item A.1: Cash: Notes and coins in the sheet '2.1 BS Assets'. No *haircut* required. See paragraph 50 (a) in the *LCR Standard*.
L1.2	**Central bank reserves.** Total amount held in central bank reserves including required reserves, any overnight deposits with the central bank, and term deposits with the central bank that: › are explicitly and contractually repayable on notice from the JIB; or › constitute a loan against which the JIB can borrow on a term basis or on an overnight but automatically renewable basis. For the avoidance of doubt, this includes Sterling denominated reserves held with the Bank of England and US denominated reserves held with the any Federal Reserve Bank. Other term deposits with central banks are not eligible for the stock of *HQLA* (if the term expires within 30 days, the deposit should be reflected in the inflows section (see **Section 12** 'Inflows'). Calculated in the Prudential Return, being equal to the Total for Item D.2.1: Unencumbered Central Bank Reserves in the sheet '2.1 BS Assets'. No *haircut* required. See paragraph 50 (b) in the *LCR Standard*.
L1.3	**0% Risk Weight Government Securities.** Marketable securities representing claims on or guaranteed by sovereigns, central banks, Public Sector Entities (**PSEs**), the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or eligible multilateral development banks (MDBs)[1], and satisfying all of the following conditions: › Except for (1) Sterling denominated bonds issued by the UK Government and (2) US Dollar denominated bonds issued by the US Government, securities must be assigned a 0% risk-weight according to the JFSC's requirements for the standardised approach to credit risk. In the case of sovereigns, central banks and PSEs, the relevant sovereign credit rating must be AA- or higher; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; › Must have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and › Not an obligation of a financial institution or any of its affiliated entities. This means that securities issued by a financial institution would not qualify for the stock of HQLA, even where the issuance is government guaranteed. This does not

[1] As listed in Appendix B to the Guidance Note "Prudential Reporting of Credit Risk under the Standardised Approach to Credit Risk"

Item	Guidance
	exclude PSE exposures where the PSE (1) has a clear public remit and (2) is not regulated as a bank. No *haircut* required. See paragraph 50 (c) in the *LCR Standard*.
L1.4	**Restricted Government Securities.** Sovereign or central bank debt securities, not eligible for inclusion in (3), that are: › Issued by the States of Jersey in pounds sterling; › Issued by a sovereign or central bank in domestic currencies in a country in which the JIB has a branch, provided that the amount recognised (the Haircut Amount) is limited to the outflow required under the LCR/LMR for that branch; or › Issued in foreign currencies, provided that the amount recognised (the Haircut Amount) is limited to the outflow required under the LCR/LMR for that country and currency No *haircut* required. See paragraph 50 (c) in the *LCR Standard*.
L1.5	**Adjustment for branches in regions with limited HQLA.** Any amounts eligible under an approval granted with respect to a branch in a jurisdiction with limited *HQLA* availability (see **Appendix D**). Apply any *haircut* specified as a condition of the approval.
L1.6	**Total Level 1 HQLA.** Calculated as the sum of all the above items in this section, for the *Haircut Amount* only: › L1.1: Coins and Banknotes › L1.2: Central bank reserves › L1.3: 0% Risk Weight Government Securities › L1.4: Restricted Government Securities › L1.5: Adjustment for branches in regions with limited HQLA

4 Level 2A HQLA

Items 2A.1 to 2A.5

Item	Guidance
2A.1	**20% Risk Weight Government Securities.** Marketable securities representing claims on or guaranteed by sovereigns, central banks, *PSEs* or multilateral development banks that satisfy all of the following conditions (and that are not eligible as *Level 1 HQLA*): › Assigned a maximum 20% risk weight for according to the JFSC's requirements for the standardised approach to credit risk; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; › Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and › Not an obligation of a financial institution or any of its affiliated entities. In practice, this means that securities issued by an affiliate of a financial institution would not qualify for the stock of HQLA, even where the issuance is government guaranteed. This does not exclude PSE exposures where the PSE (1) has a clear public remit and (2) is not regulated as a bank. 15% *haircut* required. See paragraph 52 (a) in the *LCR Standard*.
2A.2	**Non-financial corporate bonds.** Corporate debt securities (including commercial paper) that satisfy all of the following conditions: › Not issued by a financial institution or any of its affiliated entities; › The relevant credit rating (according to the JFSC's requirements for the standardised approach to credit risk) is at least AA-; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and › Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%). 15% *haircut* required. See paragraph 52 (b) in the *LCR Standard*.
2A.3	**Covered bonds.** Covered bonds that satisfy all of the following conditions: › Not issued by the JIB itself or any of its affiliated entities; › The relevant credit rating (according to the JFSC's requirements for the standardised approach to credit risk) is at least AA-; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and › Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%). 15% *haircut* required. See paragraph 52 (b) in the *LCR Standard.*

Item	Guidance
2A.4	**Adjustment for branches in regions with limited HQLA**. Any amounts eligible under an approval granted with respect to a branch in a jurisdiction with limited *HQLA* availability (see **Appendix D**). Apply any haircut specified as a condition of the approval.
2A.5	**Total Level 2A HQLA.** Calculated as the sum of all the above items in this section, for the *Haircut Amount* only: › 2A.1: 20% Risk Weight Government Securities › 2A.2: Non-financial corporate bonds › 2A.3: Covered bonds › 2A.4: Adjustment for branches in regions with limited HQLA

5 Level 2B HQLA

Items 2B.1 to 2B.6

<table>
<tr><th>Item</th><th>Guidance</th></tr>
<tr><td>2B.1</td><td>BBB Government Securities. Sovereign issued or guaranteed debt securities that satisfy all of the following conditions and are not included within Level 1 HQLA or Level 2A HQLA may be included here, subject to a 50% haircut:
› Not issued by a financial institution or any of its affiliated entities;
› The relevant credit rating (according to the JFSC’s requirements for the standardised approach to credit risk) is at least BBB-;
› Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.
50% haircut required. See FAQ 3(a) in “Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio”, published by the Basel Committee in April 2014, available at www.bis.org/publ/bcbs284.htm</td></tr>
<tr><td>2B.2</td><td>Residential mortgage backed securities (RMBS). RMBS that satisfy all of the following conditions:
› Not issued by, and the underlying assets have not been originated by, the JIB itself or any of its affiliated entities;
› The relevant credit rating (according to the JFSC’s requirements for the standardised approach to credit risk) is at least AA;
› Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
› Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 20%);
› The underlying asset pool is restricted to residential mortgages and cannot contain structured products;
› The underlying mortgages are “full recourse’’ loans (i.e. in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum Loan-to-Value (LTV) of 80% on average at issuance; and
› The securitisations are subject to “risk retention” regulations which require issuers to retain an interest in the assets they securitise.
25% haircut required. See paragraph 54 (a) in the LCR Standard.</td></tr>
<tr><td>2B.3

2B.3 cont.</td><td>Lower rated corporate bonds. Non-financial corporate or PSE issued debt securities (including commercial paper) where the relevant credit rating (according to the JFSC’s requirements for the standardised approach to credit risk) is BBB- or higher that satisfy all of the following conditions and are not included within Level 1 HQLA or Level 2A HQLA may be included here, subject to a 50% haircut:</td></tr>
</table>

Item	Guidance
	› Not issued by a financial institution or any of its affiliated entities. This does not exclude PSE exposures where the PSE (1) has a clear public remit and (2) is not regulated as a bank; › The relevant credit rating (for capital adequacy purposes) is at least BBB-; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and › Have a proven record as a reliable source of liquidity (via repo or sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress. 50% *haircut* required. See paragraph 54 (b) in the *LCR Standard*.
2B.4	**Common equity shares.** Non-financial common equity shares that satisfy all of the following conditions may be included here, subject to a 50% haircut: › Not issued by a financial institution or any of its affiliated entities; › Exchange traded and centrally cleared; › A constituent of the major stock index in the home jurisdiction or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located; › Denominated in the pounds sterling or (if held in a branch) in the currency of the jurisdiction where the JIB has the branch; › Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and › Have a proven record as a relatively reliable source of liquidity (via repo or sale) even during stressed market conditions, i.e. a maximum decline of share price not exceeding 40% or increase in haircut not exceeding 40 percentage points over a 30-day period during a relevant period of significant liquidity stress. 50% *haircut* required. See paragraph 54 (c) in the *LCR Standard*.
2B.5	**Adjustment for branches in regions with limited HQLA**. Any amounts eligible under an approval granted with respect to a branch in a jurisdiction with limited *HQLA* availability (see **Appendix D**). Apply any *haircut* specified as a condition of the approval.
2B.6	**Total Level 2B HQLA.** Calculated as the sum of all the above items in this section, for the *Haircut Amount* only: › 2B.1: BBB Government Securities › 2B.2: Residential mortgage backed securities (RMBS) › 2B.3: Lower rated corporate bonds › 2B.4: Common equity shares › 2B.5: Adjustment for branches in regions with limited HQLA

6 Total HQLA

Items LA.1 to LA.7

Overview

6.1 This Section addresses the derivation of total *HQLA*, including requirements with respect to caps on the inclusion of Level 2 assets and those relating to the impact of **short-term transactions** (secured funding, secured lending and collateral swaps with a maturity date up to and including 30 calendar days).

Item	Guidance
LA.1	**Adjusted Level 1 HQLA.** The amount of *Level 1 HQLA* that would result after unwinding *short-term transactions* involving the exchange of any *HQLA* for any *Level 1 HQLA* items (including cash) that meet, or would meet if held unencumbered, the operational requirements for *HQLA* set out in **Appendix F**. Calculate the *Haircut Amount* only. See paragraphs 47 & 48 and Annex 1 in the *LCR Standard*.
LA.2	**Adjusted Level 2A HQLA.** The amount of *Level 2A HQLA* that would result after unwinding *short-term transactions* involving the exchange of any *HQLA* for any *Level 2A HQLA* items that meet, or would meet if held unencumbered, the operational requirements for *HQLA* set out in **Appendix F**. Calculate the *Haircut Amount* only. See paragraphs 47 & 48 and Annex 1 in the *LCR Standard*.
LA.3	**Adjusted Level 2B HQLA.** The amount of *Level 2B HQLA* that would result after unwinding *short-term transactions* involving the exchange of any *HQLA* for any *Level 2B HQLA* items that meet, or would meet if held **Appendix F**. Calculate the *Haircut Amount* only. See paragraphs 47 & 48 and Annex 1 in the *LCR Standard*.
LA.4	**Adjustment for Level 2B cap.** The adjustment should be calculated and reported for the *Haircut Amount* only, and be derived as the highest of the following: › LA.3: Adjusted Level 2B HQLA minus 15/85 times the sum of LA.1: Adjusted Level 1 HQLA plus LA.2: Adjusted Level 2A HQLA › LA.3: Adjusted Level 2B HQLA minus 1/4 of LA.1: Adjusted Level 1 HQLA › Zero (i.e. adjustment may not be negative). See paragraphs 47 & 48 and Annex 1 in the *LCR Standard*.
LA.5	**Adjustment for Level 2 cap.** The adjustment should be calculated and reported for the *Haircut Amount* only, and be derived as the highest of the following: › The sum of LA.2: Adjusted Level 2A HQLA and LA.3: Adjusted Level 2B HQLA minus LA.4: Adjustment for Level 2B cap minus 2/3 multiplied by LA.1: Adjusted Level 1 › Zero (i.e. adjustment may not be negative). See paragraphs 47 & 48 and Annex 1 in the *LCR Standard*.
LA.6	**Adjustment for branches in regions with limited HQLA.** Report any adjustments required/permitted under an approval granted with respect to a branch in a jurisdiction with limited *HQLA* availability (see **Appendix D**), after applying any haircut specified as a condition of the approval.

Item	Guidance
LA.7	**Item LA.7 - Total HQLA.** The total should be calculated and reported for the *Haircut Amount* only, and be calculated as the sum of: › L1.6: Total Level 1 HQLA › 2A.5: Total Level 2A HQLA › 2B.6: Total Level 2B HQLA › LA.6: Adjustment for branches in regions with Limited HQLA › minus the sum of: › LA.4: Adjustment for Level 2B cap › LA.5: Adjustment for Level 2 cap

7 LCR/LMR

Overview

7.1 **Sections 7** to 14 specify the calculation of the LCR/LMR - the liquidity ratios for which a minimum is established in Section 5 of the Banking Code.

7.2 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 13** and **14**.

General guidelines

7.3 Three principles should be applied to all reporting and monitoring:

7.3.1 *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;

7.3.2 *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

7.3.3 *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 (the *JIB's* documented self-assessment of capital and liquidity adequacy - see section 5.2 of the *Banking Code*).

7.4 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.

Large adjustment rule

7.5 The maximum adjustment permitted is £20 million per person or group of connected persons: referred to herein as the **large adjustment rule**. For example, if a deposit was £100 million then:

7.5.1 if the *Adjustment Factor* for the category was 50% then £40 million could be included in that category (resulting in an adjustment of £20 million to the contractual flow), with the excess (£60 million) assigned to a category for which the adjustment factor is 100%, as indicated in the relevant guidance; and

7.5.2 if the *Adjustment Factor* for the category was 20%, an amount equal to only £25 million could be included in that category (resulting in an adjustment of £20 million to the contractual flow), with the excess (£75 million) assigned to a category for which the adjustment factor is 100%, as indicated in the relevant guidance.

Prudential reporting specific guidelines

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

7.7 For each individual item the following must be reported:

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

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

7.7.3 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**: 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;
- **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; and
- 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.

8 Retail Outflows

Items RE.01 to RE.12

<table>
<tr><th>Item</th><th>Guidance</th></tr>
<tr><td>RE.01</td><td>Stable retail deposits: Individuals. Deposits from individuals (i.e. placed directly by a natural person) where:
› The deposit is taken in either Jersey or a branch of the JIB in the Crown Dependencies (CDs), EU or a jurisdiction where the JFSC has agreed that an equivalent Depositors Compensation Scheme (DCS) exists; and
› The deposit either (1) is on demand or (2) has an original maturity of one week or less.
Include the lower of the balance deposited by the customer and the compensation limit of the applicable DCS. Any amount exceeding the limit should be included in RE.02, RE.03 or RE.04, 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 include the full amount in RE.02, RE.03 or RE.04, as appropriate.
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB’s ICAAP) must be 5% or more. See paragraph 75 in the LCR Standard.</td></tr>
<tr><td>RE.02
RE.03
RE.04</td><td>Less stable retail deposits: Individuals - lower adjustment
Less stable retail deposits: Individuals – higher adjustment
Less stable retail deposits: Individuals - no adjustment
Report deposits from individuals (i.e. placed directly by a natural person) that are not eligible for inclusion in RE.01. JIBs must further divide the deposits as follows:
› RE.02 and RE.03 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 RE.02, or two groups, with RE.02 used to report those for which a lower Adjustment Factor has been justified and RE.03 used to report those for which a higher Adjustment Factor has been justified; and
› RE.04 should be used to report retail deposits (i.e. placed directly by a natural person) that are not eligible for inclusion in RE.01, RE.02 or RE.03. This must include any amount that is ineligible because of the large adjustment rule.
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB’s ICAAP) must be 10% or more (100% for RE.04). See paragraph 75 in the LCR Standard.</td></tr>
<tr><td>RE.05</td><td>Stable retail deposits: Small businesses. Small business are those where either:
› the business borrows money from the JIB and that borrowing meets the rules for the definition of “retail” for capital adequacy purposes; or
› the business does not borrow from the JIB but its deposits are managed as retail deposits,
provided that (in both cases) the total aggregated funding raised from any one business or group of connected businesses does not exceed €1 million (on a consolidated basis where applicable).</td></tr>
</table>

Item	Guidance
RE.05 *cont.*	Deposits from larger businesses, including all deposits exceeding €1 million, should be treated in accordance with the relevant category of wholesale deposits. Include deposits placed directly with the *JIB* by small businesses that are not: › Banks, other deposit-taking institutions and companies, such as investment or securities firms, trust and companies services providers, insurance or reinsurance companies, pension/superannuation funds, that are subject to prudential supervision by the JFSC or an overseas regulator (financial institutions) and where: • The deposit is taken in either Jersey or a branch of the *JIB* in the CDs, EU or a jurisdiction where the *JFSC* has agreed that an equivalent *DCS* exists. • The deposit either (1) is on demand or (2) has an original maturity of one week or less. Include the lower of the balance deposited by the customer and the compensation limit of the applicable *DCS*. Include any amount exceeding the limit in RE.06, RE.07 or RE.08, 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 RE.06, RE.07 or RE.08, as appropriate. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) must be 5% or more. See paragraph 89 in the *LCR Standard*.
RE.06 **RE.07** **RE.08**	**Less stable retail deposits: Small businesses - lower adjustment** **Less stable retail deposits: Small businesses - higher adjustment** **Less stable retail deposits: Small businesses - no adjustment** Report deposits placed directly with the *JIB* by small businesses that are not *financial institutions* and are not eligible for inclusion in RE.05. *JIBs* must further divide the deposits as follows: › RE.06 and RE.07 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 RE.06, or two groups, with RE.06 used to report those for which a lower Adjustment Factor has been justified and RE.07 used to report those for which a higher Adjustment Factor has been justified. › RE.08 should be used to report retail deposits from small businesses that that are not eligible for inclusion in RE.05, RE.06 or RE.07. This must include any amount that is ineligible because of the large adjustment rule. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) must be 10% or more (100% for RE.08). See paragraph 89 in the *LCR Standard*.

Item	Guidance
RE.09 **RE.10** **RE.11**	**Less stable retail: bonds - lower adjustment** **Less stable retail: bonds - higher adjustment** **Less stable retail: bonds - no adjustment** 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. *JIBs* must divide the bonds as follows: › RE.09 and RE.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 RE.09, or two groups, with RE.09 used to report those for which a lower Adjustment Factor has been justified and RE.10 used to report those for which a higher Adjustment Factor has been justified. › RE.11 should be used to report bonds that are not eligible for inclusion in RE.09 or RE.10. This must include any amount that is ineligible because of the large adjustment rule. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) must be 10% or more (100% for RE.11). See paragraph 110 in the *LCR Standard*.
RE.12	**Total Retail outflow.** Calculated for as the sum of: › RE.01: Stable retail deposits: Individuals › RE.02: Less stable retail deposits: Individuals - lower adjustment › RE.03: Less stable retail deposits: Individuals – higher adjustment › RE.04: Less stable retail deposits: Individuals - no adjustment › RE.05: Stable retail deposits: Small businesses › RE.06: Less stable retail deposits: Small businesses - lower adjustment › RE.07: Less stable retail deposits: Small businesses - higher adjustment › RE.08: Less stable retail deposits: Small businesses - no adjustment › RE.09: Less stable retail: bonds - lower adjustment › RE.10: Less stable retail: bonds - higher adjustment › RE.11: Less stable retail: bonds - no adjustment

9 Other Liabilities

Items OL.01 to OL.11

<table>
<tr><th>Item</th><th>Guidance</th></tr>
<tr><td>OL.01</td><td>Operational deposits: DCS covered deposits. Include only operational deposits (defined in 0) where:
The deposit is taken in an Isle of Man or EU branch of the JIB or a branch of the JIB in a jurisdiction where the JFSC has agreed that a DCS covers such deposits; and
The deposit either (1) is on demand or (2) has an original maturity of one week or less.
Include only the lower of the balance deposited by the customer and the compensation limit of the relevant DCS. Report any amount exceeding the limit in OL.02 or OL.03, as appropriate.

If a JIB is not able to readily identify amounts that qualify according to the above definition (e.g. it cannot determine which deposits are covered by the DCS), it should report the full amount in OL.02 or OL.03, as appropriate.

The Adjustment Factor applied (as determined by the JFSC, following review of the JIB's ICAAP) must be 5% or more. See paragraph 104 in the LCR Standard.</td></tr>
<tr><td>OL.02

OL.03</td><td>Operational deposits: other deposits - adjustment

Operational deposits: other deposits - no adjustment

Report operational deposits (defined in 0) that are not eligible for inclusion in OL.01. JIB's must further divide the deposits as follows:
OL.02 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.
OL.03 should be used to report operational deposits that are not eligible for inclusion in OL.01 or OL.02.
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB's ICAAP) must be 25% or more (100% for OL.03). See paragraph 93 in the LCR Standard.</td></tr>
<tr><td>OL.04

OL.05</td><td>Fiduciary deposits: qualifying PIC Deposits

Fiduciary deposits - no adjustment

Report fiduciary deposits (defined in Appendix I). JIB's must further divide the deposits as follows:
OL.04 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.
OL.05 should be used to report fiduciary deposits that are not eligible for inclusion in OL.04.
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB's ICAAP) must be 40% or more (100% for OL.5).</td></tr>
</table>

<table>
<tr><th>Item</th><th>Guidance</th></tr>
<tr><td>OL.06</td><td>Wholesale deposits: covered deposits. Include only 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 or EU branch of the JIB or a branch of the JIB in a jurisdiction where the JFSC has agreed that a DCS 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.
Include 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 OL.07 or OL.08, as applicable.
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB’s ICAAP) must be 20% or more. See paragraph 108 in the LCR Standard.</td></tr>
<tr><td>OL.07
OL.08</td><td>Unsecured wholesale: adjustment
Unsecured wholesale - no adjustment
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:
› OL.07 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; and
› OL.08 should be used to report deposits that are not eligible for inclusion in OL.07.
OL.08 should be used to report deposits and other funding (that are not eligible to be reported elsewhere) from:
› Other institutions (including banks, securities firms, insurance companies etc.);
› Beneficiaries;
› Conduits and special purpose vehicles;
› Affiliated entities of the bank; and
› Other entities.
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 0).
The Adjustment Factor applied (as determined by the JFSC, following review of the JIB’s ICAAP) must be 40% or more (100% for OL.08). See paragraph 107-109 in the LCR Standard.</td></tr>
</table>

<table>
<tr><th>Item</th><th>Guidance</th></tr>
<tr><td>OL.09

OL.10</td><td>Secured wholesale: transactions backed by HQLA

Secured wholesale - no adjustment

OL.09 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 JIB’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).

OL.10 should be used to report all other maturing secured transactions, including transactions where a JIB 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.

The Adjustment Factor is 100% for OL.10. See paragraph 112 in the LCR Standard.</td></tr>
<tr><td>OL.11</td><td>Total outflow from other liabilities. Calculated as the sum of:

› OL.01: Operational deposits: DCS covered deposits
› OL.02: Operational deposits: other deposits - adjustment
› OL.03: Operational deposits: other deposits - no adjustment
› OL.04: Fiduciary deposits: qualifying PIC Deposits
› OL.05: Fiduciary deposits - no adjustment
› OL.06: Wholesale deposits: covered deposits
› OL.07: Unsecured wholesale: adjustment
› OL.08: Unsecured wholesale - no adjustment
› OL.09: Secured wholesale: transactions backed by HQLA
› OL.10: Secured wholesale - no adjustment</td></tr>
</table>

10 Commitments

Items CM.01 to CM.05

Item	Guidance
CM.01	**Committed credit and liquidity facilities.** Calculate committed amounts in accordance with **Appendix J**. The *Adjustment Factor* applied must be as determined by the *JFSC*, following review of the *JIB's ICAAP* and taking into account **Appendix J**. See paragraph 126 in the *LCR Standard*.
CM.02 **CM.03**	**Committed facilities: financial institutions** **Committed facilities: non-financial institutions** CM.02 should be used to report any contractual lending obligations to financial institutions not captured in any other categories. CM.03 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 (IF.03 plus IF.06), to the extent that this is a positive amount (do not report any negative result). The *Adjustment Factor* applied must be 100% for CM.02 and at least 50% for CM.03 (as determined by the *JFSC*, following review of the *JIB's ICAAP*). See paragraphs 132 and 133 in the *LCR Standard*.
CM.04	**Other contingent funding obligations.** Calculate committed amounts in accordance with **Appendix K**. The *Adjustment Factor* applied must be as determined by the *JFSC*, following review of the *JIB's ICAAP* and taking into account **Appendix K**. See paragraph 134 in the *LCR Standard*.
CM.05	**Total outflow from commitments.** Calculated as the sum of: › CM.01: Committed credit and liquidity facilities › CM.02: Committed facilities: financial institutions › CM.03: Committed facilities: non-financial institutions › CM.04: Other contingent funding obligations

11 Derivatives and Other Outflows

Items DO.01 to DO.03

Item	Guidance
DO.01	**Derivatives.** Calculate the *nominal* total of all transactions that could give rise to an outflow. The *Contractually Due Outflow* for each derivative instrument is 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. The *Adjustment Factor* applied must be 100%. See paragraph 116 in the *LCR Standard*.
DO.02	**Miscellaneous.** Calculate committed amounts in accordance with **Appendix L**. The *Adjustment Factor* applied must be as determined by the *JFSC*, following review of the *JIB's ICAAP* and taking into account **Appendix L**. See paragraphs 118 to 125 in the *LCR Standard*.
DO.03	**Total other outflows**. Calculated as the sum of: › DO.01: Derivatives › DO.02: Miscellaneous

12 Inflows

Items IF.01 to IF.11

Item	Guidance
IF.01	**Reverse repos, securities borrowing and margin lending.** 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). See paragraphs 145 to 148 in the *LCR Standard*.
IF.02	**Facilities (Committed and Uncommitted).** Calculate the nominal as the total of all facilities granted to the *JIB* except any that qualify as *HQLA*. The *Contractually Due Inflow* is the amount that contractually could be drawn in the next 30 days. 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 D**), these should be reported as *HQLA* and hence should not be reported here. See paragraph 149 in the *LCR Standard*.

Item	Guidance
IF.03	**Retail and small business customer inflows.** 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 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. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) must not exceed 50%. See paragraph 153 in the *LCR Standard*.
IF.04	**Financial Institutions.** For the *Contractually Due Inflow*, include 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 IF.08. Qualifying inflows should be reported in IF.05. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) may be up to 100%. See paragraph 154 in the *LCR Standard*.
IF.05	**Qualifying inflows**. For the *Contractually Due Inflow*, report only inflows from banks where: › the inflow is contractually due within one week (5 working days); › a Concession Limit has been established for the bank; and › the group 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 IF.08. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) may be up to 100%.

Item	Guidance
IF.06	**Non-financial institutions**. For the *Contractually Due Inflow*, include only inflows from fully performing loans to customers that do not fall within IF.03, IF.04 or IF.065. 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. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) must not exceed 50%. See paragraph 154 in the *LCR Standard*.
IF.07	**Maturing securities.** For the *Contractually Due Inflow*, include 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. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) may be up to 100%. See paragraph 155 in the *LCR Standard*.
IF.08	**Operational deposits.** For the *Contractually Due Inflow*, include all inflows due from operational deposits (see **0**) placed with counterparty banks that mature in the next 30 days. The *Adjustment Factor* applied must be 0%. See paragraph 156 in the *LCR Standard*.
IF.09	**Cash inflows from derivatives.** The *nominal* must be 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. The *Adjustment Factor* applied (as determined by the *JFSC*, following review of the *JIB's ICAAP*) may be up to 100%. See paragraphs 158 and 116 in the *LCR Standard*.

Item	Guidance
IF.10	**Other cash inflows.** All other amounts contractually due. The *Adjustment Factor* applied should be 0% unless otherwise agreed by the *JFSC*, following review of the *JIB's ICAAP.* See paragraphs 158 and 116 in the *LCR Standard*.
IF.11	**Total Inflows.** Calculated for the *Predicted Inflow* only as the sum of: › IF.01: Reverse repos, securities borrowing and margin lending › IF.02: Facilities (Committed and Uncommitted) › IF.03: Retail and small business customer inflows › IF.04: Financial Institutions › IF.05: Qualifying inflows › IF.06: Non-financial institutions › IF.07: Maturing securities › IF.08: Operational deposits › IF.09: Cash inflows from derivatives › IF.10: Other cash inflows

13 LCR Calculation

Items CR.01 to CR.04

Overview

13.1 The *LCR* calculations detailed below apply if the reporting *JIB* does not have permission to use the *LMR*. All calculations are in respect of the *Predicted Outflow/Inflow* only, unless otherwise noted.

Item	Guidance
CR.01	**Total Outflows.** The sum, for all items, of: › RE.12: Total Retail Outflow › OL.11: Total outflow from other liabilities › CM.05: Total outflow from commitments › DO.03: Total other outflows
CR.02	**Capped Inflows.** The lower of: › IF.11: Total Inflows › 75% of CR.01: Total Outflows
CR.03	**Net Outflow.** Calculated as: › CR.01: Total Outflows › minus › CR.02: Capped Inflows
CR.04	**LCR.** Calculated as: › LA.7: Total HQLA, in the sheet ‘1.1 HQLA’ divided by › CR.03: Net Outflow

14 LMR Calculation

Items MR.01 to MR.04

Overview

14.1 The *LMR* calculations detailed below apply if the reporting *JIB* has permission to use the *LMR*. All calculations are in respect of the *Predicted Outflow/Inflow* only, unless otherwise noted.

Item	Guidance
MR.01	**Total Outflows.** The sum, for all items, of: › RE.12: Total Retail Outflow › OL.11: Total outflow from other liabilities › CM.05: Total outflow from commitments › DO.03: Total other outflows
MR.02	**Capped Inflows**. The lower of: › IF.11: Total Inflows minus IF.05 Qualifying inflows › 75% of CR.01: Total Outflows
MR.03	**Capped Inflows plus Qualifying Inflows plus HQLA.** The sum of: › MR.02: Capped Inflows › IF.05: Qualifying inflows › LA.7: Total HQLA, in the sheet '1.1 HQLA'
MR.04	**LMR.** Calculated as: › MR.03: Capped Inflows plus Qualifying Inflows plus HQLA divided by › MR.01: Total Outflows

15 NSFR

Introduction

15.1 This document specifies the prudential reporting of the Net Stable Funding Ratio (**NSFR**). *JIBs* are required to report consistently with it for each prudential period end date.

15.2 The requirements regarding the calculation and reporting of the *NSFR* are based on those set out in the "*Basel III: The Net Stable Funding Ratio*"[2], issued by the *Basel Committee* in October 2014 (**NSFR Standard**).

Reporting guidelines

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

15.4 For individual items, a **Value** (*balance sheet asset* / *liability* or *nominal*, as relevant) and either (as relevant) the **Available Stable Funding** or **Required Stable Funding**, as applicable, are required to be reported, with the *NSFR* being the ratio of *Available Stable Funding* to *Required Stable Funding*. In the case of off balance sheet items, such as Derivatives and commitments, the *nominal* is specified herein.

15.4.1 *Available Stable Funding / Required Stable Funding*: for each item this is calculated as the *Value* multiplied by the relevant factor ASF Factors or RSF Factors (as specified herein for each item).

16 NSFR Specifications

Overview – Available Stable Funding

16.1 Data should be input on the components of the *JIB's Available Stable Funding* (liabilities and equity) in accordance with the guidance provided in the table below

Items 1 to 8

Item	Guidance
1	**Capital and long-term funding.** The total amount of (1) regulatory capital and (2) long-term funding. Regulatory capital and long term funding are defined, for these purposes, as: › Regulatory capital is all regulatory capital except for *Tier 2* instruments with residual maturity of less than one year; and › Long-term funding is all capital instruments and liabilities with residual maturity of one year or more. The *ASF Factor* is 100%.See paragraph 21 in the *NSFR Standard*.
2	**Stable retail deposits.** Stable retail deposits (as defined for *LCR*/*LMR* purposes) that are on demand or are term deposits with residual maturities of less than one year provided by retail and *small business* customers. The *ASF Factor* is 95%. See paragraph 22 in the *NSFR Standard*.
3	**Less stable retail deposits.** Less stable retail deposits (as defined for *LCR*/*LMR* purposes) that are on demand or are term deposits with residual maturities of less than one year provided by individuals and *small business* customers. The *ASF Factor* is 90%. See paragraph 23 in the *NSFR Standard*.
4	**Non-financial funding.** Unsecured wholesale funding, non-maturity deposits and/or term deposits with a residual maturity of less than one year, provided by non-financial corporates (i.e. not banks or financial institutions, including fiduciaries), sovereigns, central banks, multilateral development banks and *PSEs*. The *ASF Factor* is 50%. See paragraph 24 in the *NSFR Standard*.
5	**Operational deposits.** All *operational deposits*, as defined for *LCR*/*LMR* purposes. The *ASF Factor* is 50%. See paragraph 24 in the *NSFR Standard*.
6	**Other medium term funding.** All other liabilities and equity categories not included in items 1 to 5 (principally non-operational deposits from banks), where the residual maturity is between 6 and 12 months. The *ASF Factor* is 50%. See paragraph 24 in the *NSFR Standard*.
7	**Other.** All other liabilities and equity categories not included in the above categories. Examples include: › Net derivative liabilities i.e. derivatives payable less variation margin posted less derivatives receivable (but only if the result is a positive figure); and › Trade date payables arising from the purchase of financial instruments, foreign currencies and commodities.

Item	Guidance
7 *cont.*	The *ASF Factor* is 0%. See paragraph 25 in the *NSFR Standard*.
8	**ASF Total.** Calculated for *Available Stable Funding* only as the sum of › 1: Capital and long-term funding › 2: Stable retail deposits › 3: Less stable retail deposits › 4: Non-financial funding › 5: Operational deposits › 6: Other medium term funding

Overview – Required Stable Funding – balance sheet items

16.2 Data should be input on the components of the *JIB's Required Stable Funding* (liabilities and equity) in accordance with the guidance provided in the table below.

16.3 Please note that:

16.3.1 In all cases, unless a specific treatment is stated, *HQLA* that is encumbered for a period of less than six months should be treated as unencumbered for these purposes; and

16.3.2 All non-performing loans should be reported within 26 - Other Assets.

Items 9 to 27

Item	Guidance
9	**Cash and central bank.** Coins, banknotes, central bank reserves and all claims on central banks with a residual maturity of less than six months. The *RSF Factor* is 0%. See paragraph 36 in the *NSFR Standard*.
10	**Trade date receivables.** Trade date receivables arising from the sale of financial instruments, foreign currencies and commodities. The *RSF Factor* is 0%. See paragraph 36 in the *NSFR Standard*.
11	**Unencumbered Level 1 HQLA.** Unencumbered Level 1 *HQLA* assets, excluding coins, banknotes and central bank reserves. The *RSF Factor* is 5%. See paragraph 37 in the *NSFR Standard*.
12	**Level 1 HQLA secured short-term lending to banks.** Unencumbered loans to banks with residual maturity of less than six months where the loan is secured against *Level 1 HQLA* and where the *JIB* has the ability to freely re-hypothecate the collateral received. The *RSF Factor* is 10%. See paragraph 38 in the *NSFR Standard*.
13	**Other short-term lending to banks plus unencumbered Level 2A HQLA.** Report both: › Other unencumbered loans to banks subject to prudential supervision with residual maturities of less than six months; and › Unencumbered Level 2A HQLA. The *RSF Factor* is 15%. See paragraph 39 in the *NSFR Standard*.
14	**Unencumbered Level 2B HQLA.**

Item	Guidance
	The *RSF Factor* is 50%. See paragraph 40 in the *NSFR Standard*.
15	**Encumbered HQLA < 1 year.** All potentially *HQLA*-eligible assets that are encumbered for a period of six months or more but less than one year. The *RSF Factor* is 50%. See paragraph 40 in the *NSFR Standard*.
16	**Medium term lending to banks.** Loans to banks subject to prudential supervision with residual maturities six months or more and less than one year. The *RSF Factor* is 50%. See paragraph 40 in the *NSFR Standard*.
17	**Operational deposits.** Deposits held at other financial institutions for operational purposes (as defined for *LCR*/*LMR* purposes). The *RSF Factor* is 50%. See paragraph 40 in the *NSFR Standard*.
18	**All other loans <1 year**. All other assets not included in the above categories with residual maturity of less than one year, including residential mortgages and loans to non-bank financial institutions, non-financial corporates, retail and small business customers, sovereigns, central banks and *PSEs*. The *RSF Factor* is 50%. See paragraph 40 in the *NSFR Standard*.
19	**Residential Mortgages.** Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach to credit risk, as specified by the *JFSC*. The *RSF Factor* is 65%. See paragraph 41 in the *NSFR Standard*.
20	**Loans >1 year, excluding financial institutions, RW 35% or less.** Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach to credit risk, as specified by the *JFSC*. The *RSF Factor* is 65%. See paragraph 41 in the *NSFR Standard*.
21	**Loans >1 year, excluding financial institutions, RW >35%.** Other unencumbered performing loans with risk weights greater than 35% under the Standardised Approach to credit risk, as specified by the *JFSC*, and residual maturities of one year or more, excluding loans to financial institutions. The *RSF Factor* is 85%. See paragraph 42 in the *NSFR Standard*.
22	**Securities and physically traded commodities**. All: › Unencumbered securities that are not in default and do not qualify as HQLA, including exchange-traded equities; › Physical traded commodities; and › Gold. The *RSF Factor* is 85%. See paragraph 42 in the *NSFR Standard*.
23	**Margin provided.** Cash, securities or other assets provided as initial margin for derivative contracts or provided to contribute to the default fund of a central counterparty, such as a clearing house. The *RSF Factor* is 85%. See paragraph 42 in the *NSFR Standard*.

Item	Guidance
24	**Encumbered assets > 1 year.** All assets, including *HQLA*, that are encumbered for a period of one year or more. The *RSF Factor* is 100%. See paragraph 43 in the *NSFR Standard*.
25	**Derivatives receivables.** The sum (for all derivatives contracts) of: › Net amount receivable less payable less variation margin posted, only if the result is a positive figure for a contract; and › 20% of derivative liabilities, (i.e. the replacement cost for derivative contracts where the contract has a negative value). The *RSF Factor* is 100%. See paragraph 43 in the *NSFR Standard*.
26	**Other assets**. All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, pension assets, intangibles, deferred tax assets, retained interest, insurance assets, subsidiary interests and defaulted securities. The *RSF Factor* is 100%. See paragraph 43 in the *NSFR Standard*.
27	**RSF Total – Balance Sheet.** Calculated for *Required Stable Funding* only as the sum of: › 9: Cash and central bank › 10: Trade date receivables › 11: Unencumbered Level 1 HQLA › 12: Level 1 HQLA secured short-term lending to banks. › 13: Other short-term lending to banks plus unencumbered level 2A HQLA › 14: Unencumbered Level 2B HQLA › 15: Encumbered HQLA < 1 year › 16: Medium term lending to banks › 17: Operational deposits › 18: All other loans <1 year › 19: Residential Mortgages › 20: Loans >1 year, excluding financial institutions, RW 35% or less › 21: Loans >1 year, excluding financial institutions, RW >35% › 22: Securities and physically traded commodities › 23: Margin provided › 24: Encumbered assets > 1 year › 25: Derivatives receivables › 26: Other assets

Overview - Required Stable Funding – Off Balance Sheet

16.4 Data should be input on the components of the *JIB's Required Stable Funding* relating to off-balance sheet items in accordance with the guidance provided in the table below.

Items 28 to 34

Item	Guidance
28	**Irrevocable facilities.** Irrevocable and conditionally revocable credit and liquidity facilities to any client. The *RSF Factor* is 5%. See paragraph 47 in the *NSFR Standard*.
29	**Unconditionally revocable facilities.** Unconditionally revocable credit and liquidity facilities. The *RSF Factor* is 0%. See paragraph 47 in the *NSFR Standard*.
30	**Trade related obligations.** Trade finance-related obligations (including guarantees and letters of credit). The *RSF Factor* is 0%. See paragraph 47 in the *NSFR Standard*.
31	**Other commitments.** Other contingent funding obligations, including products and instruments, such as: › Guarantees and letters of credit unrelated to trade finance obligations; and › 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); and › Managed funds that are marketed with the objective of maintaining a stable value. The *RSF Factor* is 0%. See paragraph 47 in the *NSFR Standard*.
32	**RSF Total – Off Balance Sheet.** Calculated for *Required Stable Funding* only as the sum of: › 28: Irrevocable facilities › 29: Unconditionally revocable facilities › 30:- Trade related obligations › 31: Other commitments
33	**RSF Total.** Calculated for *Required Stable Funding* only as the sum of: › 27: RSF Total – Balance Sheet › 32: RSF Total – Off Balance Sheet
34	**Net Stable Funding Ratio.** Calculated as: › 8: ASF Total Divided by › 33: RSF Total

Appendix A List of Items - HQLA

List of all Items specified in this document relating to HQLA

Item	Description
Section 3: Level 1 HQLA	
L1.1	Coins and Banknotes
L1.2	Central bank reserves
L1.3	0% Risk Weight Government Securities
L1.4	Restricted Government Securities
L1.5	adjustment for branches in regions with Limited HQLA
L1.6	Total Level 1 HQLA
Section 4: Level 2A HQLA	
2A.1	20% Risk Weight Government Securities
2A.2	Non-financial corporate bonds
2A.3	Covered bonds
2A.4	Adjustment for branches in regions with Limited HQLA
2A.5	Total Level 2A HQLA
Section 5: Level 2B HQLA	
2B.1	BBB Government Securities
2B.2	Residential mortgage backed securities
2B.3	Lower rated corporate bonds
2B.4	Common equity shares
2B.5	Adjustment for branches in regions with Limited HQLA
2B.6	total Level 2B HQLA
Section 6: Total HQLA	
LA.1	Adjusted Level 1 HQLA
LA.2	Adjusted Level 2A HQLA
LA.3	Adjusted Level 2B HQLA
LA.4	Adjustment for Level 2B cap
LA.5	Adjustment for Level 2 cap
LA.6	Adjustment for branches in regions with Limited HQLA
LA.7	Total HQLA

Appendix B List of Items – LCR/LMR

List of all Items specified in this document relating to LCR/LMR

Item	Description
Section 8: Retail outflows	
RE.01	Stable retail deposits: Individuals
RE.02	Less stable retail deposits: Individuals - lower adjustment
RE.03	Less stable retail deposits: Individuals – higher adjustment
RE.04	Less stable retail deposits: Individuals - no adjustment
RE.05	Stable retail deposits: Small businesses
RE.06	Less stable retail deposits: Small businesses - lower adjustment
RE.07	Less stable retail deposits: Small businesses - higher adjustment
RE.08	Less stable retail deposits: Small businesses - no adjustment
RE.09	Less stable retail: bonds - lower adjustment
RE.10	Less stable retail: bonds - higher adjustment
RE.11	Less stable retail: bonds - no adjustment
RE.12	Total Retail outflow
Section 9: Other liabilities	
OL.01	Operational deposits: DCS covered deposits
OL.02	Operational deposits: other deposits - adjustment
OL.03	Operational deposits: other deposits - no adjustment
OL.04	Fiduciary deposits: qualifying PIC Deposits
OL.05	Fiduciary deposits - no adjustment
OL.06	Wholesale deposits: covered deposits
OL.07	Unsecured wholesale: adjustment
OL.08	Unsecured wholesale - no adjustment
OL.09	Secured wholesale: transactions backed by HQLA
OL.10	Secured wholesale - no adjustment
OL.11	Total outflow from other liabilities
Section 10: Commitments	
CM.01	Committed credit and liquidity facilities
CM.02	Committed facilities: financial institutions
CM.03	Committed facilities: non-financial institutions

Item	Description
CM.04	Other contingent funding obligations
CM.05	Total outflow from commitments
Section 11: Derivatives and Other Outflows	
DO.01	Derivatives
DO.02	Miscellaneous
DO.03	Total other outflows
Section 12: Inflows	
IF.01	Reverse repos, securities borrowing and margin lending
IF.02	Facilities (Committed and Uncommitted)
IF.03	Retail and small business customer inflows
IF.04	Financial Institutions
IF.05	Qualifying inflows
IF.06	Non-financial institutions
IF.07	Maturing securities
IF.08	Operational deposits
IF.09	Cash inflows from derivatives
IF.10	Other cash inflows
IF.11	Total Inflows
Section 13: LCR	
CR.01	Total Outflows
CR.02	Capped Inflows
CR.03	Net Outflow
CR.04	LCR
Section 13: LMR	
MR.01	Total Outflows
MR.02	Capped Inflows
MR.03	Capped Inflows plus Qualifying Inflows plus HQLA
MR.04	LCR

Appendix C List of Items – NSFR

List of all Items specified in this document relating to NSFR

Item	Description
Section 15: NSFR	
1	Capital and long-term funding
2	Stable retail deposits
3	Less stable retail deposits
4	Non-financial funding
5	Operational deposits
6	Other medium term funding
7	Other
8	ASF Total
9	Cash and central bank
10	Trade date receivables
11	Unencumbered Level 1 HQLA
12	Level 1 HQLA secured short-term lending to banks.
13	Other short-term lending to banks plus unencumbered level 2A HQLA
14	Unencumbered Level 2B HQLA
15	Encumbered HQLA < 1 year
16	Medium term lending to banks
17	Operational deposits
18	All other loans <1 year
19	Residential Mortgages
20	Loans >1 year, excluding financial institutions, RW 35% or less
21	Loans >1 year, excluding financial institutions, RW >35%
22	Securities and physically traded commodities
23	Margin provided
24	Encumbered assets > 1 year
25	Derivatives receivables
26	Other assets
27	RSF Total – Balance Sheet
28	Irrevocable facilities

Item	Description
29	Unconditionally revocable facilities
30	Trade related obligations
31	Other commitments
32	RSF Total – Off Balance Sheet
33	RSF Total
34	Net Stable Funding Ratio

Appendix D Jurisdictions with Insufficient HQLA

Eligibility for alternative liquidity approaches

D.1 Some jurisdictions may have an insufficient supply of *Level 1 HQLA* (or all *HQLA*) in their domestic currency to meet the aggregate demand of banks with significant exposures in this currency. To address this situation, the *LCR Standard* sets out three alternative treatments for determining eligibility of *HQLA*, which are expected to apply to a limited number of currencies and jurisdictions.

D.2 Eligibility for such alternative treatment will be judged on the basis of the qualifying criteria set out in Annex 2 to the *LCR Standard*.

D.3 The *JFSC* does not consider that, at this time, Jersey, or any other Crown Dependency, meets these criteria. However, it is recognised that *JIBs* may operate through branches that are in jurisdictions that both qualify and have adopted measures, which must then be subject to peer review.

D.4 To qualify for the alternative treatment, a jurisdiction would need to demonstrate that:

D.4.1 There is an insufficient supply of *HQLA* in its domestic currency, taking into account all relevant factors affecting the supply of, and demand for, such *HQLA*;

D.4.2 The insufficiency is caused by long-term structural constraints that cannot be resolved within the medium term;

D.4.3 It has the capacity, through any mechanism or control in place, to limit or mitigate the risk that the alternative treatment cannot work as expected; and

D.4.4 It is committed to observing the obligations relating to supervisory monitoring, disclosure, and periodic self-assessment and independent peer review of its eligibility for alternative treatment.

D.5 All of the above criteria have to be met to qualify for the alternative treatment.

Recognition of foreign use

D.6 Where one or more local alternative approaches have been established by a local supervisor and that approach has been determined to be appropriate by peer review, *JIBs* that have branches in that jurisdiction may utilise the local approach to the extent that the alternative assets held meet liquidity requirements arising from liabilities held in that jurisdiction that are not met by *HQLA* held in that jurisdiction.

D.7 Where no peer review has been published, a bank wishing to use a local treatment should provide the *JFSC* with full details of the local approach, including any self-assessment published by the relevant authority, any published plans to carry out such a peer review and the bank's own assessment of the approach versus the parameters set out in the *LCR Standard*, including the criteria set out herein.

D.8 Approval will depend on all relevant circumstances. Any request and the approval granted will address how the additional assets should be reported within the relevant lines set aside for this.

Outline of alternative approaches and reporting requirements

D.9 Three approaches are set out in the *LCR Standard*. Each has its merits and issues and the below is only an outline of them. The *LCR Standard* sets out parameters in full but for each relevant branch it is expected that this would be supplemented with detailed local rules and that, in some cases, only one or two of the approaches will be developed locally.

D.10 The request for approval would need to explain how the adjustments permitted under the local rules would be adjusted when calculating *HQLA*, taking into account the restriction in **D.6**.

Option 1 – Contractual committed liquidity facilities from the relevant central bank, with a fee.

D.11 *JIBs* would be granted access to contractual committed liquidity facilities provided by the relevant central bank (i.e. relevant to the currency in question), for a fee. These facilities should not be confused with regular central bank standing arrangements. In particular, these facilities are contractual arrangements between the central bank and the commercial bank with a maturity date which, at a minimum, falls outside the 30-day *LCR* window. Further, the contract must be irrevocable prior to maturity and involve no ex-post credit decision by the central bank. Such facilities are only permissible if there is also a fee for the facility which is charged regardless of the amount, if any, drawn down against that facility and the fee is set so that both banks which claim the facility line to meet the *LCR*, and banks which do not, have similar financial incentives to reduce their exposure to liquidity risk.

D.12 If approved, relevant amounts should be included in the calculation of item L1.5 **-** Adjustment for branches in regions with limited HQLA.

Option 2 – Foreign currency *HQLA* to cover domestic currency liquidity needs.

D.13 Option 2 would allow supervisors to permit banks that evidence a shortfall of HQLA in the domestic currency to hold *HQLA* in a currency that does not match the currency of the associated liquidity risk, provided that the resulting currency mismatch positions are controlled within limits agreed by their supervisors.

D.14 To account for foreign exchange risk associated with foreign currency *HQLA* used to cover liquidity needs in the domestic currency, such liquid assets should be subject to a minimum haircut of 8% for major currencies that are actively traded in global foreign exchange markets. If the domestic currency is formally pegged to another currency under an effective mechanism, the haircut for the pegged currency can be lowered to a level that reflects the limited exchange rate risk under the peg arrangement.

D.15 It is anticipated that most approvals might relate to *Level 1 HQLA* and hence should be included in the calculation of item L1.5 - Adjustment for branches in regions with limited HQLA. This will be confirmed (or otherwise) in any approval.

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

D.16 This option addresses currencies for which there are insufficient *Level 1 HQLA*, as determined by reference to the qualifying principles and criteria, but where there is sufficient *Level 2A HQLA*. In this case, supervisors may choose to allow banks that evidence a shortfall of *HQLA* in the domestic currency to hold additional *Level 2A HQLA* in the stock. The additional *Level 2A HQLA* would be subject to a minimum haircut of 20%, i.e. 5% higher than the 15% haircut applicable to *Level 2A HQLA* that are included in the standard 40% cap. The higher haircut is applied to cover any additional price and market liquidity risks arising from increased holdings of *Level 2A HQLA* beyond the 40% cap, and to provide a disincentive for banks to use this option based on yield considerations.

D.17 If approved, relevant amounts should be included in the calculation of item LA.6 - Adjustment for branches in regions with limited HQLA.

Appendix E HQLA - General Requirements

Introduction

E.1 *JIBs* should assess assets and exclude any that, despite meeting the criteria set out in **Sections 2, 3** and **4**, are not sufficiently liquid (setting aside liquidity provided by central banks or governments) to be included in the stock of *HQLA*. This assessment process must be described in the *JIB's LMP* and should cover the following:

E.1.1 Fundamental characteristics; and

E.1.2 Market-related characteristics.

E.2 The test of whether liquid assets are of "high quality" is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress.

E.3 *HQLA* should ideally be eligible at central banks for intraday liquidity needs and overnight liquidity facilities. Central banks can provide a further backstop to the supply of banking system liquidity under conditions of severe stress. Central bank eligibility should thus provide additional confidence that banks are holding assets that could be used in events of severe stress without damaging the broader financial system.

E.4 *JIBs* that have direct access to central banks, including via overseas branches, should determine whether assets are eligible. *JIBs* that do not have direct access should still carry out the work but only consider assets to be eligible if (1) the assets are eligible at a central bank via a group counterparty and (2) there is a tried and tested operational route to access funding from that central bank via that counterparty.

Fundamental characteristics

E.5 **Low credit risk:** assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset's liquidity. Low duration, low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset's liquidity.

E.6 **Ease and certainty of valuation:** an asset's liquidity is aided if market participants are likely to agree on its valuation. Assets with more standardised, homogenous and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a high-quality liquid asset must be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products.

E.7 **Low correlation with risky assets**: the stock of *HQLA* should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions (other than PSE exposures where the PSE (1) has a clear public remit and (2) is not regulated as a bank.) are more likely to be illiquid in times of liquidity stress in the banking sector.

E.8 **Listed on a developed and recognised exchange:** being listed significantly aids an asset's transparency.

Market-related characteristics

E.9 **Active and sizable market:** the asset should have active outright sale or repo markets at all times. This means that:

E.9.1 There should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes, and a large and diverse number of market participants. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market.

E.9.2 There should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling *HQLA*.

E.10 **Low volatility:** assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of traded prices and spreads are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (e.g. prices and haircuts) and volumes during stressed periods.

E.11 **Flight to quality:** historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

Appendix F Operational Requirements

General requirements

F.1 A *JIB* should periodically monetise a representative proportion of its stock of *HQLA* through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress.

F.2 All assets in the stock should be unencumbered. “Unencumbered” means free of legal, regulatory[3], contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset. An asset in the stock should not be pledged (either explicitly or implicitly) to secure, collateralise or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held at the bank, have not been rehypothecated and are legally and contractually available for the bank's use can be considered as part of the stock of *HQLA*. In addition, assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank or a PSE but have not been used to generate liquidity may be included in the stock.

F.3 A *JIB* should exclude from the stock those assets that, although meeting the definition of “unencumbered” specified in **paragraph F.2**, the *JIB* would not have the operational capability to monetise to meet outflows during the stress period. Operational capability to monetise assets requires having procedures and appropriate systems in place, including the function identified in **paragraph F.1**, with access to all necessary information to execute monetisation of any asset at any time. Monetisation of the asset must be executable, from an operational perspective, in the standard settlement period for the asset class in the relevant jurisdiction.

F.4 The stock should be under the control of the function charged with managing the liquidity of the *JIB* (e.g. the treasurer), meaning the function has the continuous authority, and legal and operational capability, to monetise any asset in the stock. Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole purpose being use as a source of contingent funds, or by documenting in its *LMP* how it has and will verify from time to time that (1) the function can monetise the asset at any point in the 30-day stress period and (2) the proceeds of doing so are available to the function throughout the 30-day stress period, without directly conflicting with a stated business or risk management strategy. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the 30-day period, would remove a hedge that would create an open risk position in excess of internal limits.

F.5 A *JIB* is permitted to hedge the market risk associated with ownership of the stock of *HQLA* and still include the assets in the stock. If it chooses to hedge the market risk, the bank should take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold).

F.6 In accordance with Principle 9 of the **Sound Principles**[4], a bank “*should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner*”. Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where *HQLA* are held. In addition, the bank should determine whether any such assets should be excluded for operational reasons and therefore, have the ability to determine the composition of its stock on a daily basis.

F.7 *JIBs* should assess whether it has access to large, deep and active repo markets for each eligible asset class. Where this is not the case, assets can only be included if it is likely that they could be monetised through outright sale. In these circumstances, a bank should exclude from the stock of *HQLA* those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements, or any requirements to hold such assets, including, but not limited to, statutory minimum inventory requirements for market making.

F.8 In order to mitigate cliff effects that could arise if *HQLA* became ineligible (e.g. due to a rating downgrade), an asset remains eligible as *HQLA* for 30 calendar days from the date it fails to meet one or more criteria. This should allow the *JIB* sufficient additional time to adjust its stock as needed or replace the asset.

Consolidated reporting

F.9 The following is only relevant to *JIBs* where consolidated reporting of the bank is required.

F.10 Qualifying *HQLA* that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level (where applicable) may be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity's or sub-consolidated group's net cash outflows in the *LCR*) are also reflected in the consolidated *LCR*. Any surplus of *HQLA* held at the legal entity can only be included in the consolidated stock if those assets would also be freely available to the consolidated (parent) entity in times of stress.

F.11 In assessing whether assets are freely transferable for regulatory purposes, banks should be aware that assets might not be freely available to the consolidated entity due to regulatory, legal, tax, accounting or other impediments. Assets held in legal entities without market access should only be included in the *HQLA* calculation to the extent that they can be freely transferred to other entities that could monetise the assets.

Rehypothecated assets

F.12 *JIBs* should not include in the stock of *HQLA* any assets, or related calculated liquidity generated by them that, they have received under right of rehypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.

F.13 Assets received as collateral for derivative transactions that are not segregated and are legally able to be rehypothecated may be included in the stock of *HQLA* provided that the *JIB* records an appropriate outflow for the associated risks.

Pricing, including for financial statements

F.14 In order to minimise the risk that a sale creates a loss, assets must normally be held at fair value in order to be eligible. However, if a *JIB* can demonstrate that a deep and active repo market exists, it may use an accruals basis for valuing assets in its financial statements but must compute the *Realisable Value* using the *repo value* – i.e. disregarding the *sale value.*

F.15 For assets held in the banking book, the *JIB* must put in place processes to ensure that it holds up to date information on bid prices and on repo haircuts applicable to assets that it wishes to designate as *HQLA*. Such information must be refreshed daily.

Appendix G Retail Deposits

Stable deposits

G.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.

Less stable deposits

G.2 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.

G.3 *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.

G.4 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.

G.5 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 H Operational Deposits

Qualifying criteria

H.1 Activities in this context refer to clearing, custody and cash management activities that meet the following criteria:

H.1.1 The customer is reliant on the bank to perform these services as an independent third party intermediary in order to fulfil its normal banking activities over the next 30 days;

H.1.2 The services are provided under a legally binding agreement to institutional customers; and

H.1.3 The termination of such agreements are subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

H.2 Qualifying operational deposits generated by such an activity are ones where:

H.2.1 The deposits are by-products of the underlying services provided by the banking organisation and not sought out in the wholesale market in the sole interest of offering interest income. Specifically, brokered deposits are excluded; or

H.2.2 The deposits are held in specifically designated accounts (not pooled) and priced without giving an economic incentive to the customer (not limited to paying market interest rates) to leave any excess funds on these accounts. In the case that interest rates in a jurisdiction are close to zero, it would be expected that such accounts are non-interest bearing. Banks should be particularly aware that during prolonged periods of low interest rates, excess balances (as defined below) could be significant.

H.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 (e.g. ratios of account balances to payment or settlement volumes or to assets under custody) to identify those customers that are not actively managing account balances efficiently.

H.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.

Relevant activities

H.5 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:

H.5.1 A clearing relationship, in this context, refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders; daylight overdraft, overnight financing and maintenance of post-settlement balances; and determination of intra-day and final settlement positions;

H.5.2 A custody relationship, in this context, refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions. Custodial services can furthermore extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services (excluding correspondent banking) and depository receipts; and

H.5.3 A cash management relationship, in this context, refers to the provision of cash management and related services to customers. Cash management services, in this context, refers to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer’s ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration and control over the disbursement of funds.

Appendix I Fiduciary Deposits

Definition

I.1 Fiduciary deposits, for these purposes, include:

I.1.1 "Swiss fiduciary deposits": amalgamated customer deposits placed by banks with other banks;

I.1.2 Deposits from trustees on behalf of trusts, whether pooled or not;

I.1.3 Deposits placed by investment firms on behalf of one or more clients, within an investment mandate; and

I.1.4 Any other deposit that is known to be managed by a financial entity on behalf of a customer.

Treatment

I.2 The *Adjustment Factor* for fiduciary deposits must be 100% except with respect to qualifying outflows relating to *PIC Deposits*.

I.3 The relevant conditions are:

I.3.1 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;

I.3.2 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);

I.3.3 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

I.3.4 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.

I.4 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 J Committed Credit and Liquidity Facilities

Definition and *nominal*

J.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.

J.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*".

J.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.

Calculation of contractually due outflow

J.4 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 (e.g. 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.

J.5 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 (e.g. pursuant to a commercial paper programme, secured financing transactions or obligations to redeem units).

J.6 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 (e.g. revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

J.7 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.

J.8 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.

Calculation of Adjustment Factors

J.9 Committed credit and liquidity facilities to retail and small business customers: 5% *Adjustment Factor*.

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

J.11 Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: 30% *Adjustment Factor*

J.12 Committed credit and liquidity facilities extended to banks subject to prudential supervision: 40% *Adjustment Factor*

J.13 Committed credit facilities to other financial institutions, including securities firms, insurance companies, fiduciaries, and beneficiaries : 40% *Adjustment Factor*

J.14 Committed liquidity facilities to other financial institutions, including securities firms, insurance companies, fiduciaries, and beneficiaries: 100% *Adjustment Factor*

J.15 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 K Other Contingent Funding Obligations

Definition and nominal

K.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.

K.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.

K.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 **J.4**)

K.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.

Adjustment Factors

K.5 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.

K.6 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:

K.6.1 documentary trade letters of credit, documentary and clean collections, import bills, and export bills; and

K.6.2 guarantees directly related to trade finance obligations, such as shipping guarantees.

K.7 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 10.**

K.8 Other contingent funding obligations for which run-off rates must be determined should include products and instruments such as:

K.8.1 unconditionally revocable “uncommitted" credit and liquidity facilities (capped at the rate that would apply if the facility was fully committed);

K.8.2 guarantees and letters of credit unrelated to trade finance obligations;

K.8.3 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.

K.9 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.

K.10 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 L Miscellaneous Outflows

Explanation

L.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%.

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

L.2 *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.

L.3 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.

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

L.4 *Contractually due outflow*: 20% of the value of non-Level 1 posted collateral.

L.5 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.

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

L.6 *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.

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

L.7 *Contractually due outflow*: 100% of the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.

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

L.8 *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.

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

L.9 *Contractually due outflow*: Report as equal to the *nominal*

L.10 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.

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

L.11 *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).

L.12 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.

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[1] The relevant *Basel Committee* standards being:

(1) *"Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools"* (**LCR Standard**), issued by the Basel Committee in January 2013. Available at: http://www.bis.org/publ/bcbs238.htm

"Liquidity coverage ratio disclosure standards", issued by the Basel Committee in January 2014 (**LCR Disclosure Rules**), revised March 2014. Available at https://www.bis.org/publ/bcbs272.htm

[2] Available at http://www.bis.org/bcbs/publ/d295.htm.

[3] Regulatory restrictions might include, for example, statutory minimum inventory requirements for entities that undertake market making.

[4] "*Principles for Sound Liquidity Risk Management and Supervision*", issued by the *Basel Committee* in September 2008. Available at:

- http://www.bis.org/publ/bcbs144.htm